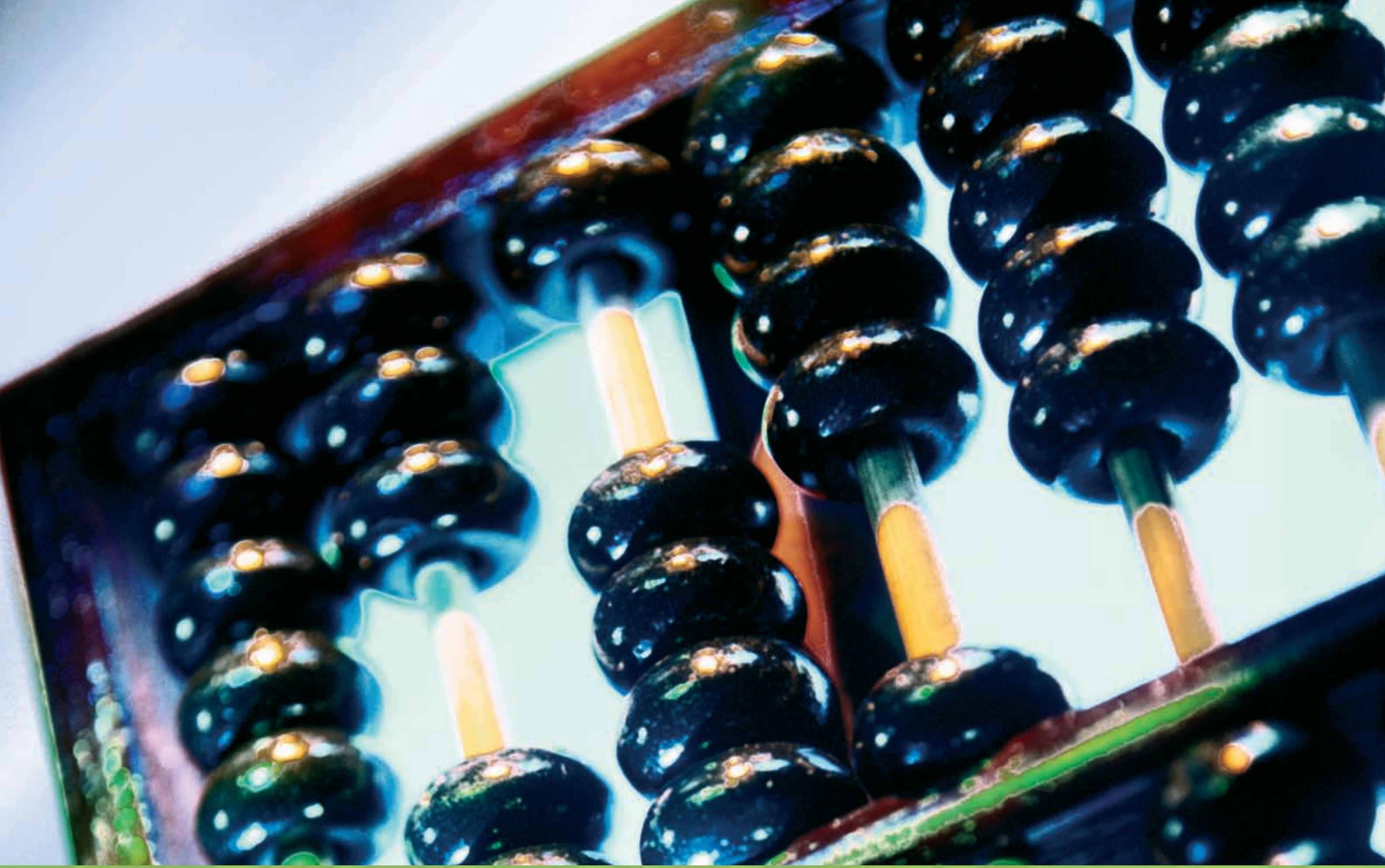

SORP MADE Simpler

Guidance for grant-making charities on reporting under the Charities SORP 2005

ACF

Saffery Champness
CHARTERED ACCOUNTANTS

SORP made simpler

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SORP made simpler

Guidance for grant-making charities on reporting under the Charities SORP 2005

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FOREWORD

Andrew Hind

Chief Executive

Charity Commission

I welcome the opportunity to provide a foreword to the grant-maker's guide to the new Statement of Recommended Practice: Accounting and Reporting by Charities. The Charity Commission's job as sector regulator is to help charities achieve their aims whilst, at the same time, promoting the public's trust and confidence in the sector. The Guide will assist on both these fronts, by providing practical advice on effective and transparent accounting and reporting.

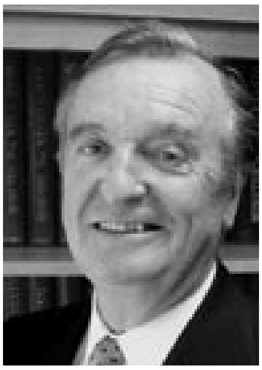
Our dialogue with the Association of Charitable Foundations on the particular issues facing grant-makers, for example the developing discussion on performance reporting, has been invaluable. A mark of our collaboration has been the consultation exercise on two of the model examples facilitated by the ACF. Excellence in reporting and accounting is what this Guide is about and we welcome the agreement of an ACF member, the Esmée Fairbairn Foundation, in agreeing to its report and accounts being cited as an early adopter of SORP alongside the revised set of examples now available on our website.

The Guide is not just about accounting. It also gives advice on writing the annual report, which makes it a useful reference book for trustees, their auditors, and accountancy practitioners assisting grant-making charities to comply with the SORP.

The diversity of grant-makers is recognised and their particular concerns are also addressed, including the recognition of grant liabilities, the treatment of multi-year grants, the treatment of support costs, and performance reporting.

Smaller charities, representing over 90% of registered charities, are not forgotten with the simpler level of reporting and disclosure for smaller charities highlighted throughout the Guide. In parallel with the lighter reporting regime for smaller charities under the new SORP, the Commission has also reduced the burden of reporting for smaller charities, reflecting our philosophy of regulating small charities in a way which is appropriate to their size.

The Charity Commission's vision and values emphasise the importance of partnerships. I welcome the Guide and our involvement in the ACF group that developed it. I commend it to you as a most practical and useful book, of value to trustee, auditor and practitioner alike.



FOREWORD

Professor Gerald Manners OBE

Chairman

The Association of Charitable Foundations

It gives me great pleasure to introduce this timely and extremely useful publication – the first detailed guidance document on the new 2005 Charities SORP prepared specifically for grant-makers. It will be of considerable benefit to all charitable trusts and foundations, both large and small, in getting to grips with this new accounting framework.

I would particularly like to thank Saffery Champness, chartered accountants, for their *pro bono* support in drafting this guidance. The Association of Charitable Foundations is also indebted to the Charity Commission for their support and practical assistance in its preparation and also to those of our members who provided detailed commentary and feedback as the drafts of the publication progressed.

As Chairman of the Association I am perhaps more conscious than most of the invaluable role that charitable grant-makers play in supporting the work of the wider voluntary and community sector. There are over 8,000 grant-making charitable trusts in the UK. They give over £2.1 billion of grants each year and provide some 10% of the income of the wider voluntary and community sector. Their contribution is especially significant when it comes to funding innovative ideas, social change, and activities that lack popular or political support.

The rich diversity of the United Kingdom's charitable grant-makers must never be overlooked. They include the many small trusts, family and local, that have distinctive objectives and areas of benefit, as well as some of the world's largest grant-making institutions outside government. Most derive their income from assured sources, usually an endowment, and they do not normally engage in fundraising. We have found that a reporting framework focused on the needs and responsibilities of charities generally (which are predominantly fundraising and service delivery organisations) is not always well-suited to reporting on the work of these grant-making charities.

This publication therefore redresses that balance. It provides practical guidance to grant-makers and their advisers on the way in which the principles of the SORP can be used to give a proper and transparent annual account of their activities. At the same time, especially to the extent that it influences practice, it will also be of value to applicant charities, to the regulatory authorities and even to the public at large. I commend it to you.

CONTENTS

1. INTRODUCTION

1.1 The purpose of this Guidance is to provide some practical help to grant-making charities on those aspects of SORP 2005 which are likely to be of particular concern to them and to highlight the key changes which will affect the accounts of grant-making charities. The Guidance does not aim to cover every aspect of SORP 2005.

1.2 Some of the requirements of SORP 2005 raise philosophical issues for grant-making charities (e.g. How do you measure "performance"? What is a "charitable activity"?). The Guidance tries to address such issues within the context of SORP 2005 in a practical and, we hope, helpful way. It does not and cannot represent the full range of views in the sector on such subjects. Unless indicated otherwise all paragraph references in this Guidance are to SORP 2005.

1.3 This Guidance should be of use to all grant-making charities, whether they are endowed or not. Charities which conduct their activities through a mixture of grant-making and other means will find some of this Guidance of relevance to them, but should remember that it is aimed at charities which conduct all their charitable activities through grant-making.

1.4 The appendices include three sets of model accounts. Rosanna Grant and BE Factor are from the Charity Commission's suite of model accounts (www.charity-commission.gov.uk). Rosanna Grant is an example of an unincorporated charitable trust with unrestricted, restricted and endowment funds which makes grants in a particular area of medicine. BE Factor is an example of a small charity (below the audit threshold). Max Grant (no relation!) is an example of a charity which has grant-making as its sole charitable activity. Grant-making charities may also find it useful to refer to the other model accounts produced by the Charity Commission, particularly the example of an NHS charity, Davenpool and Banglebury Hospital. We also include on pages 107-114 some examples illustrating how various different types of grant commitments should be accounted for.

1.5 This Guidance applies to all UK grant-making charities whose accounts are subject to SORP 2005. However, charities in Scotland and Northern Ireland should note that the regulatory framework differs to that in England and Wales. This Guidance does not draw attention to those areas where the rules for Scotland and Northern Ireland are different.

1.6 Small charities (i.e. those not subject to statutory audit) are exempt from many of the requirements of SORP 2005. Those sections of the Trustees' Report which apply to small charities are highlighted in green within this Guidance. The exemptions from certain other requirements of SORP 2005 are summarised at paragraphs 5.4 and 5.5 in this Guidance and are highlighted in green where relevant. Where a particular requirement is specifically relevant to a small charity, this is also highlighted in green.

2. SUMMARY OF THE MAIN CHANGES INTRODUCED BY SORP 2005

2.1 The main changes in SORP 2005 which will affect grant-making charities can be summarised as follows:

More prescriptive and detailed guidance in the Trustees' Annual Report

2.2 SORP 2005 introduces some new disclosure requirements (for example, on trustee induction and training). More fundamentally, it includes detailed requirements on how charities should report their objectives and activities and how achievements and performance against these objectives should be reported.

2.3 SORP 2005 draws a distinction between objects, aims, objectives for the year, strategies and significant activities. There is an emphasis on qualitative and quantitative information, where the grant-maker uses such information to assess its performance. There is also a requirement to comment on plans for future periods. The requirement to report on reserves is essentially unchanged but there is an expanded definition of reserves.

2.4 There is a new requirement to discuss factors within and outside the charity's control which may affect the achievement of its objectives.

Activity costing

2.5 SORP 2005 introduces some changes to the way income and expenditure are categorised in the Statement of Financial Activities ("SOFA"). The main change is the requirement that costs be grouped by "charitable activity". This will have quite a significant impact on the way in which many charities report. Some grant-making charities may see grant-making itself as their sole charitable activity and would allocate all their charitable support costs to this one activity. Other grant-making charities may see their grant-making in terms of promoting a number of separately identifiable charitable activities. These may be traditionally defined areas such as the relief of poverty or an activity might comprise a range of grant-making under a heading such as "social change: enterprise and independence". Where the grant-making charity has more than one charitable activity it would allocate its charitable support costs between these different charitable activities. Some grant-making charities may adopt a mixture of these two approaches.

Governance costs and support costs

2.6 "Management and administration" disappears as a cost category. The new category of "governance costs" has a fairly restrictive definition. Support costs should now be apportioned between governance costs, investment management costs (see paragraph 5.21 of this Guidance) and charitable activities. This will have a significant impact on the appearance of some grant-making charities' accounts.

Conditional grants

2.7 SORP 2005 contains some more detailed guidance on the treatment of conditional grants. The new SORP draws the distinction between conditions which are under the grant-maker's control and those which are outside its control. In the former case, the grant commitment should not be recognised until the condition has been fulfilled. In the latter case, the grant commitment should be recognised at the outset. The most common form of condition which is under the control of the giving charity is an annual progress review in a multi-year programme. It is important that the annual progress review has the genuine potential to prevent the future grant from being paid, if recognition of the commitment is to be deferred.

Disclosure of grants made

2.8 The new requirements are less prescriptive than before. The requirement to disclose the top 50 grants to institutions is replaced by a more subjective requirement.

Social (or programme related) investment

2.9 SORP 2005 includes guidance on how such investments should be accounted for. Such investments should be subject to an annual impairment review with the cost of any impairment being categorised as charitable expenditure.

Accounting for total return for charities with permanent endowment

2.10 SORP 2005 sets out how permanently endowed charities which have total return arrangements should account for these.

Smaller charities

2.11 There are significant concessions for smaller charities (for the purpose of this Guidance these are defined as those charities below the audit threshold) from many of the disclosure requirements in the Trustees' Annual Report and from the new cost categorisation requirements in the SOFA. A small charity (for this purpose) is one that has gross income and total expenditure below £250,000 and gross assets below £1,400,000. Appendix 5 to SORP 2005 contains further information on accounting concessions for smaller charities including the use of Receipts and Payments Accounts for charities with gross receipts of less than £100,000 and the application of the Financial Reporting Standard for Smaller Entities (FRSSE). More information on the accounting requirements for smaller charities may be found in the Charity Commission publication "Charity Accounts: The framework" (CC61) which is accessible from the Charity Commission website: **www.charity-commission.gov.uk.**

Link to the Summary Information Return ("SIR")

2.12 The SIR forms part of the Charity Commission Annual Return for charities with income greater than £1 million. The approach taken by SORP 2005 in the Trustees' Annual Report and the SOFA is consistent with that taken by the SIR. Those charities which are required to complete a SIR (i.e. those with income of more than £1 million) will need to ensure that the approach they adopt in their Trustees' Annual Report and SOFA is consistent with their SIR which may of course be prepared at a different time.

3. THE TRUSTEES' ANNUAL REPORT

3.1 The requirements are set out under seven headings in the SORP. However, there is no requirement that charities should use these headings and in many cases it may make sense to structure the report in a way that differs from that used by SORP 2005. For ease of reference we have used the headings in the SORP for the purposes of this Guidance. The seventh heading "Funds Held as Custodian Trustee on Behalf of Others" is not new and rarely applies and so is not dealt with in this Guidance. The mandatory requirements for small charities are highlighted in green below. Commentary relating to such requirements is also highlighted in green.

Reference and administrative details of the charity, its trustees and advisers

3.2 The Trustees' Annual Report should include:

- Official and 'working' name(s), if any, of the charity.
- Charity registration number and company number (if applicable).
- Principal address and registered office.
- Names of all* trustees as at the date of signing the Report.
- Names of any other trustees who served during the year.
- Names of directors of any body corporate that is a trustee.
- Name of chief executive or senior staff to whom the trustees have delegated day-to-day management.
- Names of any relevant external advisers, agents, etc.

  * This can be limited to 50 but must include all office holders

3.3 In addition to all the information required previously, this introduces a requirement to disclose *"the name of any chief executive officer or other senior staff member(s) to whom day-to-day management of the charity is delegated by the charity trustees"* (Para. 41 (f)). In some smaller charities there may be no member of staff to whom management is delegated in which case we suggest that the Report explains that the charity is entirely managed by the trustees with only administrative support being provided by staff.

Structure, governance and management

3.4 The Trustees' Annual Report should include:

- How the charity is constituted (e.g. limited company, trust etc).
- Nature of the governing document (e.g. trust deed, Memorandum & Articles of Association).
- How the trustees are recruited and appointed (naming any external appointers/nominators).

- Any policies/procedures for the induction and training of trustees.
- The charity's organisation structure and decision-making, identifying any powers delegated to staff.
- Any charity network relationship, in so far as it "impacts on the operating policies adopted by the charity".
- Relationships with related parties, also other charities/bodies co-operating to further its charitable objectives.
- Confirmation that the major risks as identified by the trustees have been reviewed and systems or procedures are in place to manage those risks.

3.5 In addition to the requirement to describe the methods for recruiting and appointing new trustees, SORP 2005 requires disclosure of *"the policies and procedures adopted for the induction and training of trustees"* (Para. 44 (c)). The 2005 Accounting Regulations (the statutory instrument which makes compliance with much of SORP a legal requirement) stipulates that where a charity does not have such policies and procedures this should be stated. This does not apply to charities below the audit threshold.

3.6 Paragraph 45 requires a statement confirming that *"the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks"*. This is virtually unchanged from SORP 2000. There continues to be no requirement to disclose the risks themselves. However, some charities may choose to comment on the major risks and how these are mitigated. It may not be wise to disclose some types of risk and charities which adopt a policy of disclosure should bear in mind that this may cause a problem in a subsequent year if there are major risks which it would not be wise to disclose.

Objectives and activities

3.7 The Trustees' Annual Report should provide:

(a) "A summary of the objects of the charity as set out in its governing document.
(b) An explanation of the charity's aims including the changes or differences it seeks to make through its activities.
(c) An explanation of the charity's main objectives for the year.
(d) An explanation of the charity's strategies for achieving its stated objectives.
(e) Details of significant activities (including its main programmes, projects, or services provided) that contribute to the achievement of the stated objectives."
(Para. 47)
"A summary of the main activities undertaken in relation to [the] objects." (Para. 52) (Small charities only).

3.8 *"The details of activities [see (e) above] should as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying charitable activities in the Statement of Financial Activities."* (Para. 48)

(a) A summary of the objects

This is self-explanatory and simply requires a summary of the charity's objects as set out in its trust deed (if unincorporated) or in its Memorandum of Association (if incorporated).

(b) An explanation of the charity's aims

3.9 This requires some careful thought as it will have a bearing on how the charity analyses its grant expenditure in the accounts. Any grant should aim to "make a difference" to the recipient of the grant and/or to the "end-user" of the grant. However, grant-making charities vary considerably in how they use their grant-making powers to make a difference.

3.10 Some grant-making charities seek to use their grant-making powers in quite a proactive way to achieve change or make a difference in particular defined areas. We suggest that such charities should explain the areas in which they seek to achieve change or make a difference and give an overview of what their grant programmes are intended to achieve. These may be very different areas (e.g. education and the relief of poverty), or they may be related areas (e.g. secondary and higher education or the relief of poverty in different geographical areas). We suggest that the areas chosen should correspond to the "charitable activities" used for the SOFA.

3.11 Other grant-making charities may not see their grant-making as falling into separate charitable activities. For example, they may be generalist grant-makers making grants across a broad range of areas. The trustees may see the role of grant-making as to respond to the many and varied visions of others rather than fulfilling any vision of the charity itself. Such charities may see "grant-making" as being their sole charitable activity. We suggest that such charities should explain that this is their approach.

3.12 Some grant-making charities will adopt a mixture of the above two approaches or something in between. For example, some will have one focus of activity (or more) for some of their grant-making with the rest of the grant budget available to respond to grant applications across a broad area.

(c) An explanation of the main objectives for the year

3.13 This should comment on the objectives for the year being reported on. This might include priority areas decided on for the year and what effect the charity is aiming to achieve. Where a charity's main objectives are the same from year to year this should be explained.

(d) An explanation of the strategies for achieving the objectives

3.14 The requirements of (d) could be met by describing the types of entity and types of grant the charity is targeting. It may be appropriate to comment on whether the charity aims to make a small number of large grants or a large number of small grants, and whether it seeks long-term grant relationships with institutions or whether the policy is not to give recurrent grants to the same entities. Examples of other strategies that could be described here include partnerships with other grant-makers and programme related investments.

(e) Details of significant activities

3.15 This might include a description of the major grants, grant programmes and new initiatives in the year and what they are designed to achieve. It should be consistent with the analysis provided either on the face of the SOFA or in the note which analyses charitable activities (see paragraph 5.22 of this Guidance).

This section also includes a requirement to set out the charity's grant-making policies and, where material, the policies adopted on making social investments.

3.16 For some grant-making charities, the distinction between objects, aims, main objectives, strategies and significant activities may be less applicable. Such charities should as a minimum:

- Provide a summary of their objects.
- Describe their grant-making policy (including selection criteria).
- State that their objects, aims and objectives are identical and that these do not change from year to year (if this is the case).
- Provide a brief description of some (or all) of the major grants in the year and what they are intended to achieve or have achieved.

Achievements and performance

3.17 This focuses on the charity's *"performance against objectives that have been set"* (Para. 53).

For grant-making charities the key requirements in this section are:

(a) *"A review of charitable activities undertaken that explains the performance achieved against objectives set.* ***Where*** *qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included."* (The emboldening is ours and not SORP's.)
(b) This requirement covers fundraising which will not be relevant to most grant-making charities.
(c) *"Where material investments are held, details of the investment performance achieved against the investment objectives set."*
(d) *"Comment on those factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community."*

3.18 Small charities need only give a summary of their main achievements during the year.

(a) A review of charitable activities

This should focus on what the grant-making has achieved in the year. The trustees may need to distinguish outcomes that further the objects of the bodies which have received the grants from outcomes that further the objects of the grant-maker itself. This raises a number of practical and philosophical considerations for grant-making charities:

3.19 It is often inherently difficult to measure what a grant has achieved. This is often the case, for example, where a grant is given to fund the core costs of another entity. Many worthwhile grants achieve intangible rather than tangible benefits.

3.20 Some grant-making charities give grants to individuals and some fund other charities or bodies which fund the "end-users" of the grants (who will often be individuals). In either case, it may not be practicable for the grant-maker to ascertain what effect the grant has had on the "end-users" without laborious and perhaps intrusive investigation. Such investigation may often be inappropriate, particularly where the recipient or "end-user" of the grant is an individual.

3.21 It may not be possible to assess what a grant has achieved until some time after it has been made. Reporting may sometimes therefore need to focus on what grants awarded in previous periods have achieved in the period being reported on.

3.22 Where a grant-making charity is giving a wide variety of grants it may be very difficult to summarise what these have achieved within the constraints of the Trustees' Annual Report. Some grant-making charities have on their websites more comprehensive and current information on their grant-making activities and achievements. We suggest that such charities should make reference to this and provide the web address in their Trustees' Annual Report. (This is encouraged by Para. 39).

3.23 In addition to the above is the risk that performance reporting may have an unhelpful influence on grant-making policy, resulting in a bias towards projects which lend themselves to quantifiable outcomes at the expense of perhaps more worthwhile projects with less easily quantifiable outcomes.

3.24 A simple narrative description of what has been achieved, perhaps focusing on a representative sample of the grants given, will often be the most appropriate way of fulfilling the requirement. It may sometimes be appropriate to include a description of the steps taken by the grant-making charity to satisfy itself that grants have achieved what was intended.

3.25 For some charities it may be more appropriate to comment on performance as part of their description of their strategies and significant activities (see above). For example, grant-making charities that adopt a primarily responsive, rather than a proactive approach to their grant-making, may find it appropriate to have one section which describes the grant-making policy and what has been achieved by the significant grants in the year.

3.26 There is no requirement for a grant-making charity to gather additional data simply to include in the Trustees' Annual Report. However, **where** the grant-making charity does use qualitative or quantitative data to assess the effect of the grant, a summary of the measures or indicators used should be given. Depending on the nature of the grant, examples might include buildings completed, developments in medical research, numbers of scholarships awarded, numbers of outreach workers paid for, or homeless people housed. **Where they exist**, charities should set out quantifiable performance targets and record the actual outcomes against the targets. Rosanna Grant includes an example of such performance reporting.

3.27 Even where a grant is designed to achieve a quantifiable outcome it may be difficult to quantify the contribution made by the grant itself. Where the grant-maker is the sole funder it may be possible to quantify what the grant has achieved. However, if the grant-maker is one of a number of parties funding a project or a charity, the form of reporting needs to make it clear that the grant contributed to the overall achievement of what was being funded, where it is not practicable to identify separately what the grant achieved. For example, a grant may be one of many contributions to a scholarship programme, but it may still be possible to calculate how many scholarships the grant funded. By contrast, where a grant is given in response to a building appeal, it will probably not be practicable to identify exactly what part of the building the grant financed.

3.28 Where grant-makers report on what their grants have achieved (as opposed to simply saying who they have given money to and for what), they will often be relying on data supplied by the recipient of the grant, possibly obtained as part of a feedback process. The grant-maker should be satisfied that the data is reliable and accurate before including it in the Trustees' Annual Report. This should not result in the grant-making charity "auditing" the data. Rather they should simply assess whether it is appropriate to include it in their Trustees' Annual Report or not.

(c) Investment performance

3.29 This should set out the return achieved by the investment portfolio (and specify whether this is gross or net of investment management fees) and compare this to the investment objective set for the year. For some charities it may make sense to include this as part of the Financial Review (see below) where the investment policy is described.

(d) Factors within and outside the charity's control which are relevant to the achievement of objectives

3.30 The SORP suggests that these factors *"might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community"* (Para. 53(d)). For example, some grant-making charities have a long-standing association with a particular town, which might be relevant; others will have a position in the wider educational or medical communities or other communities into which they make grants. Comments on whether or not the charity obtains feedback from grant recipients could also be included here, as well as an indication of how such feedback is used.

Financial review

3.31 This should include a review of the financial performance including typically, investment income, new sources of capital or income, the level of grant spending and the movement in reserves. Specifically this should include:

- Policy on reserves and the level of reserves (this includes the purpose and timescales for spending any material Designated Funds (this is a new requirement)).
- Explanations for any material funds in deficit and what steps are being taken to eliminate it.
- Description of the charity's principal funding sources.
- Investment policy and objectives.

3.32 Reserves means *"that part of a charity's income funds that is freely available"* (GL51.1). Reserves will normally exclude permanent and expendable endowment funds, restricted funds, and those income funds which are represented either by fixed assets held for use by the charity or by performance related investments. Where unrestricted funds are designated for essential future spending they may be excluded from the definition of reserves. Where expendable endowment is readily available for spending it may be included as part of reserves. This will be the case where the trustees have taken a decision to allocate some of the expendable endowment to funds available for spending. Further guidance on reserves can be found in the Charity Commission publication CC19 on Charities' Reserves.

3.33 The requirement to set out the charity's investment policy is extended to include *"the extent (if any) to which social, environmental or ethical considerations are taken into account"* (Para. 55 (d)). This does not require the charity to have such policies. If the charity does not have such policies there is no requirement to make any statement to that effect.

If a total return approach is used this should be described here. Also, if a power of total return has been approved by the Charity Commission in respect of permanent endowment, it should be disclosed here.

Plans for future periods

3.34 *"The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them."* (Para. 57). This should comment on future grant-making priorities and may form the basis against which the charity measures its performance in the following year. For some grant-making charities this may be covered by the statements referred to under "Objectives and activities" above.

3.35 Small charities may omit this disclosure although, like most other such disclosures, the disclosure is encouraged as a matter of good practice.

4. ACCOUNTING FOR SEPARATE FUNDS

4.1 A charity's funds fall into one of the following categories:

- Unrestricted income funds
  - o General
  - o Designated
- Restricted funds/special trusts
  - o Income
  - o Endowment (capital)
    - Expendable
    - Permanent

Unrestricted income funds

4.2 These are funds that may be used for any purpose within the charity's objects. These generally arise out of unspent income.

4.3 Trustees may designate part of these funds for particular purposes (e.g. commitments to pay future grants where these have not been provided for as a liability). These become designated funds, but remain part of the charity's unrestricted funds. Designations can be reversed by trustees at any point, in which case the funds revert to the general unrestricted funds of the charity. Following the methodology of the accounting standard, FRS 21, a decision to designate funds should be taken before the balance sheet date, but the amount of the designation can *"be adjusted subsequent to the year end if more accurate information becomes available"* (Para. 68).

4.4 Under trust law, unless the trustees have a power of accumulation, unrestricted income funds can only be held with a view to spending them and they cannot be used to create endowment capital out of income.

Restricted funds/special trusts

Income

4.5 Funds which can only be used for certain specified purposes are "restricted funds". The restrictions may arise from terms imposed by donors or may result from the terms of an appeal. The movement on restricted funds should be shown in a separate column on the SOFA with an analysis of the movement in the individual funds in a note. Income (including interest on cash) arising from restricted fund assets should be allocated to the correct restricted funds. This will require an apportionment of income where several restricted funds are invested in the same investments or bank accounts or cash deposits.

Endowment funds

Endowment funds represent the capital gifts to the charity.

Expendable endowment

4.6 Where trustees have the power to convert endowment funds into income, these are classified as "expendable endowment". Unlike an income fund, there is no requirement to spend expendable endowment until the trustees exercise their power to expend the capital (or part of it). At that point the part expended should be transferred to restricted or unrestricted income depending on what, if any, restrictions were applied by the donor of the endowment. Income arising from expendable endowment should be included in either unrestricted or restricted income as appropriate. It is not an addition to the endowment.

Permanent endowment

4.7 *"An endowment fund where there is no power to convert the capital into income is known as a permanent endowment fund, which must generally be held indefinitely."* (Para. 3 (a) in Appendix 3.3). However, it is normally possible to exchange the assets representing the permanent endowment provided they are replaced by other assets. As with expendable endowment, income arising from permanent endowment should be included in either unrestricted or restricted income as appropriate, except where permission has been obtained from the Charity Commission to apply a total return approach.

Disclosure

4.8 *"Separate sets of statements may be produced for each major fund and linked to a total summary. The trustees should decide on the most suitable form of presentation, bearing in mind:*
(a) The complexity of the fund structure.
(b) The need for the total provided in the summary to agree to the primary statements (Statement of Financial Activities and Balance Sheet).
(c) The need to avoid confusion between the movements on the various funds."
(Para. 76).

An example of a summary is given below:

Outline summary of fund movements

Fund name	Fund balances brought forward £	Incoming resources £	Outgoing resources £	Transfers £	Gains and losses £	Fund balances carried forward £
Major fund 1						
Major fund 2						
Major fund 3						
Other funds						
Total funds						

5. THE STRUCTURE OF THE STATEMENT OF FINANCIAL ACTIVITIES

5.1 SORP 2005 changes the categorisation of income and expenditure and adopts an activity based approach.

5.2 Incoming resources are analysed as follows:

- Incoming resources from generated funds
  - o Voluntary income
  - o Activities for generating funds
  - o Investment income
- Incoming resources from charitable activities
- Other incoming resources

5.3 Resources expended are analysed as follows:

- Costs of generating funds
  - o Costs of generating voluntary income
  - o Fundraising trading: costs of goods sold and other costs
  - o Investment management costs
- Charitable activities
- Governance costs
- Other resources expended

Small charities

5.4 Small charities *"do not need to analyse either resources expended or incoming resources by activity categories within the Statement of Financial Activities. They may instead choose resource classifications to suit their circumstances".* (App 5.3.1(a)). In other words, small charities can use headings such as "staff costs" and "premises costs" to analyse their non- grant expenditure.

5.5 As a result small charities may omit the following disclosures:

Details	*SORP 2005 paragraph references*
Analysis of activities that have generated funds	122
Analysis of incoming resources from charitable activities	146
Support costs analysis	166-167
Apportionment of costs	175-176
Breakdown of costs of generating voluntary income	183-184
Analysis of fundraising trading costs	186
Analysis of charitable activity costs	191-194
Analysis of grant-making or associated support costs by activity	202,203(b)
Analysis of governance costs	212

Accordingly, paragraphs 5.20 to 5.37 of the Guidance are not relevant to small charities.

Incoming resources from generated funds

Voluntary income

5.6 This will include *"gifts, donations and any related gift aid claimed, including legacies, given by the founders, patrons, supporters, the general public and businesses"* (Para. 121(a)).

5.7 This will also include *"grants which provide core funding or are of a general nature provided by government and charitable foundations…."*(Para. 121(b)) and *"gifts in kind and donated services and facilities"* (Para. 121(d)).

5.8 *"As far as possible the analysis categories provided here should match the detailed analysis provided for the costs of generating voluntary income."* (Para. 122). For most grant-making charities this will not be possible.

Donations and grants

5.9 These should be recognised when there is evidence of entitlement. This *"will normally exist when the grant is formally expressed in writing. Where entitlement is demonstrable, and no conditions are attached, such promises should be recognised as incoming resources once the criteria of certainty and measurability are met"* (Para. 104). In practice, even where there is a commitment of funds from a donor, many grant-making charities would not consider that the criteria had been met until the charity had received the funds. When the criterion of certainty has been met is a matter for judgement.

Legacies

5.10 These should be recognised when entitlement has been established, there is certainty of receipt, and the amount can be reliably measured. It is unlikely that these conditions will be met prior to the receipt of a letter from the executors advising of an intended payment. Where the charity is a residuary legatee (as opposed to a legacy of a fixed amount), it may take some time for the amount of the legacy to be quantifiable with any certainty.

5.11 Where a material legacy has been notified, but not recognised in the SOFA, *"this fact and an estimate of the amounts receivable should be disclosed in the notes to the accounts"* (Para. 128). Similar disclosure is required where an asset is bequeathed which is subject to a life tenancy by a third party.

Gifts in kind

5.12 Where a charity receives an asset for its own use (e.g. a property), it should be recognised as an incoming resource and within the appropriate fixed asset category on the balance sheet when receivable at a reasonable estimate of its gross value to the charity. The basis of valuation should be disclosed.

Donated services and facilities

5.13 Grant-making charities sometimes receive donations of office facilities and accounting and other services from a business owned by one of the benefactors.

5.14 Donated services and facilities *"should be included in the Statement of Financial Activities where the benefit to the charity is reasonably quantifiable and measurable. The value placed on these resources should be the estimated value to the charity of the service or facility received; this will be the price the charity estimates it would pay in the open market for a service or facility of equivalent utility to the charity"* (Para. 133) (our underlining). This is a change from SORP 2000 which referred to the "actual cost borne by the donor", although this may sometimes produce the same result as the above.

5.15 *"Where donated services or facilities are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the Statement of Financial Activities."* (Para. 135).

Activities for generating funds

5.16 This covers fundraising events, sponsorships and shop income which are unlikely to be relevant to most grant-making charities. If the charity lets out temporarily surplus space the income should be included under this heading.

Investment income

5.17 This comprises income from investment assets, including dividends, interest and rents. The gross investment income arising from each class of investment should be shown in a note. Where investment management fees are deducted from investment income by investment managers, the gross investment income should be shown and the fees should be shown under "Investment management costs" (see below).

Incoming resources from charitable activities

5.18 This includes the sale of goods and services as part of the direct charitable activities and similar items and is unlikely to be relevant for most grant-making charities.

Other incoming resources

5.19 This heading should be used for any incoming resource which does not fall under any of the other categories. A gain on the sale of an asset held for use by the charity would be included, as would a gain on the disposal of a programme related investment.

Costs of generating funds

Costs of generating voluntary income
Fundraising trading: cost of goods sold and other costs

5.20 These mainly cover fundraising costs and costs related to fundraising activities such as shops and will not be relevant to most grant-making charities.

Investment management costs

5.21 These cover costs of portfolio management, obtaining investment advice, investment administration, rent collection, property repairs and maintenance charges. This could include a proportion of support costs where some of these functions are carried out or supervised by the charity's staff. Where investment management fees are deducted from investment income by investment managers, the gross investment income should be shown and the fees should be shown in this cost category. Investment management costs associated with endowment fund investments should be charged to the endowment fund in the SOFA, except where there are insufficient funds or the trust deed says otherwise. Where investment management fees have been netted against investment gains and losses an adjustment will be needed to show the gross gain or loss and the gross fees.

Charitable activities

This section does not apply to small charities unless they choose to adopt an activity cost approach to the analysis of their expenditure.

5.22 SORP 2005 requires charitable expenditure to be analysed by charitable activity. What is a "charitable activity" for a grant-making charity? The answer will depend to a large extent on the approach the charity takes to grant-making. How the idea of "charitable activity" is applied to grant-making should be consistent with the description of the charity's aims under "Objectives and activities" in the Trustees' Annual Report (see paragraphs 3.9 to 3.12 of this Guidance). As we suggest in paragraph 3.10 of this Guidance, the way in which a grant-making charity describes and analyses its charitable activity will depend on the way in which it uses its grant-making powers.

5.23 For example, some grant-making charities see their grant-making as promoting a number of separately identifiable charitable activities, such as the relief of poverty and the advancement of education. They may use their grant-making powers in a proactive way to achieve change or make a difference in particular well-defined areas. These well-defined areas may be very diverse (e.g. education and the environment) or they may be quite closely related. For example, the model accounts for the Rosanna Grant charity include three charitable activities: research, education and innovation. However, each of these three activities relates to the study and cure of Alzheimer's disease.

5.24 On the other hand, some grant-making charities would see "grant-making" itself as being their sole charitable activity. They may take a more responsive approach to grant-making, perhaps as a generalist grant-maker, making grants across a broad range of areas. Although the charity may analyse its grants into different areas, it may not see these areas as being separate charitable activities in any meaningful sense.

5.25 The approach taken to defining and describing charitable activity will determine what appears on the face of the SOFA. Where different areas of grant-making (e.g. the environment or education) are considered to comprise separate charitable activities, the grant expenditure should be analysed into these separate activities on the face of the SOFA. Where "grant-making" is the sole charitable activity, all grant expenditure will be included in the SOFA under this heading. The Max Grant model accounts adopt this approach.

5.26 A mixture of the above two approaches may be appropriate for some grant-making charities. A charity may have some areas of focused grant-making activity which amount to separate charitable activities. The rest of its charitable expenditure may fall into a "general grant-making" category.

5.27 In all cases, the total shown in the SOFA for each charitable activity should include the appropriate allocation of support costs.

Support costs

This section does not apply to small charities unless they choose to adopt an activity cost approach to the analysis of their expenditure.

5.28 SORP 2005 introduces a new approach for support costs. Support costs are defined as *"those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity"* (Para GL54.1). SORP 2005 requires such costs to be *"allocated to the relevant activity cost category they support"* (Para 165).

5.29 For a grant-making charity support costs will include:

"(a) Costs incurred before grants are made (pre-grant costs) as part of the decision making process.
(b) Post-grant costs e.g. monitoring of grants.
(c) Costs of any central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources and financing." (Para. 196).

5.30 Such costs should be analysed and then allocated between governance costs (see below) and grant-making, and then further allocated between the different charitable activities where grant-making itself is not the sole charitable activity.

An example of support costs categories of expenditure would be:
Staff costs
Office costs
Depreciation

5.31 An appropriate basis of allocation should be selected for each category of support costs. Staff time will often be the most appropriate method of allocating most support costs between governance and charitable activities. When allocating support costs between charitable activities it may be more appropriate to use the numbers of grants awarded in each area as the basis of allocation. The basis of allocation should be disclosed. Rosanna Grant includes a note setting out an example of the allocation of support costs.

5.32 The method of allocation chosen should be reliable, but should not involve undue cost and effort.

5.33 Where grant-making is the sole charitable activity, the requirement to allocate support costs between charitable activities can be met through showing grant expenditure and support costs on the face of the SOFA with a sub-total. A charity with more than one charitable activity could also show the allocation of support costs on the face of the SOFA, but this would be more cumbersome and problematic. Instead, such charities would normally disclose the allocation of support costs in a note. An example of how it could work for a charity with grant-making as its sole charitable activity is given below:

Extract from SOFA

	£
Charitable activity:	
Grant-making:	
Grants payable	2,000,000
Support costs attributable to grant-making	250,000
Cost of grant-making	**2,250,000**

Governance costs

This section does not apply to small charities unless they choose to adopt an activity cost approach to the analysis of their expenditure.

5.34 Governance costs relate to the general running of the charity as opposed to the direct management functions inherent in generating funds and supporting the charitable activities.

5.35 Governance costs will normally include both direct costs and related support costs. *"Direct costs will include such items as internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory accounts."* (Para. 211).

5.36 *"The accounting policy notes should explain the nature of costs allocated to the governance category…"* (Para. 212). An analysis of governance costs may be provided where this is considered useful.

Other resources expended

5.37 This category should be used for payment of resources which do not fall within any of the above categories.

Transfers

5.38 *"All transfers between the different categories of funds should be shown on the transfer row of the Statement of Financial Activities. The transfer row will be used for several purposes including:*

(a) When capital funds are released to an income fund from expendable endowment.

(b) Where a charity has authority to adopt a total return approach to investment to record the release of funds to income from the unapplied total return fund held within the permanent endowment fund.
(c) Where restricted assets have been released and reallocated to unrestricted income funds.
(d) To transfer assets from unrestricted funds to finance a deficit on a restricted fund.
(e) To transfer of the value of fixed assets from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but the asset is held for a general and not a restricted purpose. (Para 214).

5.39 *Material transfers should not be netted off but should be shown gross on the face of the Statement of Financial Activities."* (Para 215).

5.40 Where expenditure (e.g. grants) is met out of a restricted fund the relevant amount of expenditure should be shown in the SOFA under the restricted funds column against the relevant charitable activity. In some cases expenditure will be split between the unrestricted and restricted fund columns, for example, where the total relevant expenditure exceeds the amount on the restricted fund(s). This treatment is preferable to showing all expenditure under unrestricted funds and then making a transfer between unrestricted and restricted funds.

6. ACCOUNTING FOR GRANTS PAYABLE

6.1 SORP 2005 contains expanded guidance on when grant commitments should be recognised. In particular, SORP 2005 contains more detail on the treatment of conditional grants and this will represent a significant change for some grant-making charities. Grant-making charities, particularly those making large numbers of grants, will need to ensure that their systems are able to categorise grants correctly. In particular, they will need to identify grants subject to conditions (and by type of condition) and identify whether conditions have been fulfilled at the balance sheet date.

6.2 The basic rule on when to recognise a grant commitment (other than for a performance related grant) remains the same. A liability to pay a grant should be recognised when the recipient of the grant has a "valid expectation" that the grant-making charity will pay the grant. This will normally occur when the grant-maker has communicated to the recipient that the grant will be paid. The communication needs to be *"in a sufficiently specific manner to raise a valid expectation on the part of the recipient that the charity will discharge its obligations"* (Para. 155). The timing of communications with recipients around the balance sheet date will therefore determine into which period grants will fall.

6.3 It should be noted that the decision by the trustees to pay a grant does not by itself create a liability, nor does a general policy statement by a charity about its future intentions.

6.4 The rules for performance related grants are different, but as these will rarely apply to purely grant-making charities, they are not covered here. The treatment of such grants is covered in paragraphs 150 to 153 of SORP 2005.

Conditional and multi-year grants

6.5 Where a grant commitment is made which is subject to the fulfilment of conditions before payment, the liability *"should be recognised once such conditions fall outside the control of the giving charity"* (Para. 158).

6.6 In many cases the condition will be outside the control of the grant-making charity at the outset. Typical examples of such conditions would be the need to obtain planning permission, or where the recipient charity needs to obtain matching funds. In such cases a liability should be recognised for the grant commitment at the outset (i.e. once the decision to award the conditional grant has been communicated to the recipient).

6.7 If the condition remains under the control of the giving charity then it *"retains the discretion to avoid the expenditure and therefore a liability should not be recognised"* (Para. 158).

6.8 The most common form of condition which is under the control of the giving charity is an annual progress review in a multi-year grant programme. Payment of subsequent years' grants is dependent on the satisfactory outcome of the progress review. For such a condition to result in deferring the recognition of a liability for future years' grants, the review process needs to have some substance to it such that it **could** result in payment of the grant being withheld. There is not a requirement that this has happened in the past, merely that the process genuinely has the potential to result in payment being withheld. If this is not the case (e.g. if the review process is merely a formality), then the future years' grant commitment should be accrued for at the outset.

6.9 If a review process is to justify deferring the recognition of future grant payments we suggest that as a minimum:

- The grant documentation needs to state that payment of future years' grants is dependent on the satisfactory outcome of the review process and should preferably set out what form the review will take and the criteria for payment of subsequent years' grants, but see paragraph 6.10 below.
- The actual review needs to be documented and should include the reasons as to why it is recommended that the next year's grant should be paid.
- The decision as to whether the next year's grant payment should or should not be made should go through an appropriate decision-making process. The documentation of the decision to make the next year's grant payment should refer to the satisfactory outcome of the review.

6.10 If a review process is to be used to justify not recognising a liability for the second and subsequent years of a grant commitment at the outset, it is important that the grant-maker retains real discretion over the payment of subsequent years' grants. The criteria applied in the review process are important in this context. If the grant-maker is to retain discretion over subsequent payments, the criteria need to allow room for judgement to be exercised by the grant-maker when carrying out the review process. If all the criteria used in the review process are capable of objective measurement such that there is no real room for judgement by the reviewer, then it follows that the conditions are not under the control of the grant-maker and the multi-year grant commitment should be recognised in full at the outset.

6.11 Subsequent years' grant commitments should be recognised when the satisfactory outcome of the review process is communicated to the recipient of the grant as that is the point at which the condition ceases to be under the control of the grant-making charity.

6.12 Making the payment of a future grant conditional on the grant-making charity having sufficient funds does not justify deferring the recognition of a liability for the grant. Such a liability would be reversed only at the point when *"an event requires the funding offer to be rescinded"* (Para. 156).

6.13 Some worked examples showing how the rules for conditional and multi-year grants apply in practice are shown on pages 107-114.

Unprovided grant commitments

6.14 *"Where a liability is not accrued, because conditions have not been met, such a commitment should normally be treated as a contingent liability."* (Para. 161). In practice this may be quite rare. If the conditions are not under the control of the grant-maker, a full liability for the grant commitment should be recognised at the outset. If the conditions are under the control of the grant-maker it is unlikely that the commitment will meet the definition of a contingent liability whose outcome depends on *"the occurrence of one or more uncertain future events not wholly within the entity's control"* (Para. GL12.1).

The Rosanna Grant model accounts give an example of a contingent liability arising from a grant commitment.

6.15 It may be appropriate to set up designated funds to cover such unprovided grant commitments.

6.16 *"Particulars of all material commitments in respect of specific charitable projects should be disclosed if they have not been charged in the accounts."* (Para. 326).

6.17 The reason for the commitment should be given (Para. 328(a)) (e.g. future years of a multi-year grant commitment where the conditions are under the grant-maker's control or grant commitments which had not been communicated to the recipients at the balance sheet date).

6.18 Separate details should be given for material projects (Para. 328 (a)).

6.19 The total amounts of such commitments (including comparatives) should be disclosed with an indication of when they are likely to fall due (Paras. 328 (b, c and f)).

Cancellation of grant commitments

6.20 *"Where later events make the recognition of a liability no longer appropriate, the liability should be cancelled by credit against the relevant expenditure heading in the Statement of Financial Activities. The credit should mirror the treatment originally used to recognise the expenditure for the liability and should be disclosed separately."* (Para. 163).

6.21 Charities may sometimes wish to place time limits on how long recipients of grant commitments have to draw down on those commitments. In such cases, any liability to pay the grant should be reversed when the time limit has expired.

7. DISCLOSURE OF GRANTS PAYABLE

7.1 SORP 2005 changes the disclosure requirements for grants payable.

7.2 The purpose of the notes concerning grants payable is to provide an understanding of the activities or projects being funded, the split between individuals and institutions and the types of institutions being supported. The analysis should link to the objects and aims of the charity as set out in the Trustees' Report.

7.3 *"The analysis and explanation in the notes should provide details, with amounts that reconcile with the total of grants payable [in the SOFA] of:*

(a) The total amount of grants analysed between grants to individuals and grants to institutions.
(b) An analysis of the total amount of grants paid by nature or type of activity or project being supported." (Para. 203). Small charities are exempt from the requirements of paragraph 203 (b).

7.4 In the Rosanna Grant and BE Factor model accounts the analysis of grants in the notes corresponds to the categories of charitable activity shown on the SOFA. It is open to charities to analyse their grants in a greater level of detail, if considered appropriate.

7.5 Where a charity has grant-making as its sole charitable activity, the notes should analyse the grants payable figure in the SOFA into appropriate categories (e.g. social welfare, medical research, the performing arts, education and the like).

7.6 Where grants have been made to institutions which are material in the context of its grant-making *"the charity should disclose [the following details] of a sufficient number of institutional grants to provide a reasonable understanding of the range of institutions it has supported"* (Para. 206):

> The name of the institution and total value of grants made to that institution in the accounting year. This should be analysed by activity or purpose where several grants have been made to the same institution to fund different activities or projects.

7.7 Where institutional grant-making is material in total, but no one grant is material, we suggest that some analysis by type of institution is provided.

7.8 Paragraphs 208 and 209 of SORP 2005 set out the requirements in the rare circumstances where non disclosure of grants can be justified on the grounds that it *"could severely prejudice the furtherance of the purposes either of the recipient institution or of the charity itself"*. The model accounts of BE Factor give an example of the required disclosures.

7.9 As before, the above analysis may be included in the Trustees' Annual Report or in a separate publication, instead of in a note. Where the information is available in a separate publication, the accounts should *"identify the publication and state how copies of it can be obtained"* (Para. 206).

8. PROGRAMME RELATED INVESTMENTS

8.1 These are sometimes known as social investments. They are investments *"made directly in pursuit of the organisation's charitable purposes"* (Para. GL47). Although they may generate a financial return, that is not their main purpose. Examples include loans to beneficiaries or to other charities.

8.2 Programme related investments should be disclosed separately within the investment asset category on the balance sheet to distinguish them from investments held primarily to produce a financial return.

8.3 *"Programme related investments should generally be included in the balance sheet at the amount invested less any impairments (in the case of equity or loans) and any amounts repaid (in the case of loans). Impairments should be charged to resources expended on charitable activities. Similarly a loan subsequently converted to a grant would be charged to charitable activities."* (Para. 309).

8.4 Impairment should represent either a provision for partial or full non repayment of a loan or a reduction of the realisable value of an equity investment. This will involve an assessment of the position at each balance sheet date (i.e. an impairment review). To be able to perform this assessment the grant-making charity will need to obtain and review the latest management and statutory accounts of the entities in which it has invested. In some cases the grant-making charity will have access to other financial information (e.g. cash flow forecasts) to support the assessment. Where a loan is made to an individual, the financial information available may be very limited. The assessment should take account of what is known about the individual's current financial circumstances. Clearly, default or delay in meeting a loan repayment programme would indicate a need for an impairment provision. The BE Factor model accounts include an example of an impairment review on programme related investments.

8.5 *"Where a gain is made on the disposal of a programme related investment, then the gain should either be set off against any prior impairment loss or included as a gain on disposal of fixed assets for the charity's own use and recorded under "other incoming resources."* (Para. 310).

Disclosure

8.6 Where material, *"the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments"* (Para. 311).

8.7 *"The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports."* (Para. 312).

9. CASH FLOW STATEMENT

This section does not apply to small charities.

9.1 Charities which meet two of the following criteria are required to prepare a cash flow statement:

- Gross turnover £5.8m
- Gross assets £2.8m
- 50 employees

9.2 The requirement for a cash flow statement is set out in the accounting standard, FRS1. SORP 2005 covers certain matters of particular relevance to charities.

9.3 The starting point for the required analysis of cash movements will normally be the figure on the SOFA for "net incoming/outgoing resources before other recognised gains and losses".

9.4 Movements in endowments should not be included in cash flows from "operating activities". Instead these should be treated as follows:

9.5 *"Cash donations to endowment should be treated as additions to endowment in the "financing" section"* (Para. 354 (a)).

9.6 *"The receipts and payments from the acquisition and disposal of investments should be shown gross in the "capital expenditure and financial investment" section of the cash flow statement. A single row should then be included in this section showing the net movement in cash flows attributable to endowment investments. A corresponding row should be included in the "financing" section for the same amount. The row in the "financing" section should reflect the cash into/(cash out of) the endowment fund whereas it will be the opposite direction in the "capital expenditure and financial investment section."* (Para. 354(b)).

9.7 *"On the rare occasion when payments are made out of permanent endowment this should be shown as a decrease in the "financing" section"* (Para. 354(c). Payments of investment management fees out of permanent endowment would be treated in this way.

9.8 It is important to note that "cash" for the purpose of the cash flow statement should exclude cash held for investment purposes. This point is sometimes overlooked. The focus of the cash flow statement is on cash held for operating purposes.

9.9 An example of a cash flow statement is included in the model accounts "Aid Overseas" on the Charity Commission's website. This is one of a suite of model accounts prepared under SORP 2005.

10. ACCOUNTING TREATMENT FOR TOTAL RETURN

Charities with permanent endowment

10.1 Charities with permanent endowment may apply to the Charity Commission for the power to adopt a total return approach to the investment of the permanent endowment. This enables the trustees to allocate the investment return derived from assets held on trust for investment (capital) at their discretion, rather than in the way indicated in the standard rules. The charity then treats the income and the gains and losses arising from investment, less investment management costs as the total return on the investment.

10.2 Applying the duty of even handedness, the trustees then determine what proportion of the unapplied total return to transfer to income for spending. The original value of the gift(s) and the portion of total return that remains unapplied remain classed as permanent endowment and constitute the investment fund.

10.3 For further information regarding total return, refer to the Charity Commission's operational guidance: "*OG33 Endowed Charities: A Total Return Approach to Investment*". Charities with only expendable endowment may adopt a total return approach to investment without the requirement to obtain the approval of the Charity Commission. (See 10.7 below.)

10.4 The effect of such an arrangement on the accounts of the charity is as follows:

Any income earned by the endowment investments is included in the Endowment column of the SOFA (as opposed to being included in unrestricted or restricted income). Capital gains and losses and investment management costs are included in the Endowment column in the relevant row. *"Any transfer from the unapplied total return fund to either unrestricted or restricted income funds will be shown on the transfer row of the Statement of Financial Activities as appropriate."* (Para. 3(j) of Appendix 3.3).

10.5 A note is also required which *"should reconcile the balance held as unapplied total return at the beginning with that at the end of the financial year"* (Para. 75 (e)).

10.6 The Rosanna Grant model accounts give an example of the note that is required.

Charities with expendable endowment

10.7 Charities may adopt the same investment approach with expendable endowment. However whilst any gain or loss on investments is attributed to the expendable endowment, together with any appropriate investment management costs, the whole of the income is allocated to unrestricted or restricted funds, as appropriate in the SOFA. Such charities do not need to prepare the note referred to in paragraph 10.5 above.

11. ANALYSIS OF ASSETS AND LIABILITIES BETWEEN FUNDS

11.1 Charities may choose to present their balance sheets in a columnar format with separate columns for unrestricted, restricted and endowment funds as appropriate and consistent with the SOFA. This presentation (which is not mandatory) removes the need for a note analysing assets and liabilities by type of fund. If the columnar presentation for the balance sheet is not used, such a note continues to be required.

11.2 The Rosanna Grant model accounts provides an example of a columnar balance sheet presentation.

12. ANALYSIS OF THE NET MOVEMENT IN FUNDS

12.1 Where a charity has incurred expenditure on fixed assets or has made programme related investments, the SOFA and cash flow statement (when prepared) may not easily provide an accurate picture of what has happened to charitable funds available to spend. In such circumstances it may be helpful to include an Analysis of the Net Movement in Funds. Paragraph 243 of SORP 2005 suggests that this note sets out the following information:

"(a) Total net movement in funds for the year.
(b) Net endowment receipts for the year (value of endowment receipts less any release of expendable endowment to income funds).
(c) Net expenditure on additions to functional fixed assets [i.e. assets used by the charity in its business, e.g. furniture and equipment]……for the year.
(d) Net investments in programme related investments …..for the year."

12.2 The BE Factor model accounts includes an example of such a note.

13. INVESTMENT ASSETS

13.1 These form a separate category within fixed assets. An investment asset is any asset held for the long term for the purpose of producing a financial return to the charity.

13.2 *"All investment assets other than programme related investments…. should be shown in the balance sheet at market value or at the trustees' best estimate of market value…"* (Para. 296). Investment assets should not be depreciated. *"All changes in value in the year, whether or not realised, should be reported in the "gains and losses on investment assets" section of the Statement of Financial Activities."* (Para. 296).

13.3 The distinction between realised and unrealised gains and losses is irrelevant for unincorporated charities. However, charitable companies are required to show these separately and to place their unrealised gains (less unrealised losses except to the extent the loss reduces the value below cost) into a revaluation reserve which should be separately identified on the balance sheet.

13.4 The valuation of quoted investments should not normally present a problem. The mid market price at the balance sheet date would normally be used.

13.5 *"Shares in unlisted companies may be valued by reference to their underlying net assets or earnings or the dividend record, as appropriate."* (Para. 297 (a)).

13.6 *"Where the cost of obtaining a valuation by one of the methods in (a) above outweighs the benefit to the users of the accounts, or lacks reliability, the investment may be included at cost."* (Para. 297 (b)).

13.7 Investment properties (and other types of investments which are not shares or securities) should be valued at least every five years *"subject only to obtaining advice as to the possibility of any material movements between individual valuations. If there is a material movement the assets must be revalued. Where a charity has a number of such assets it will be acceptable for valuations to be carried out on a rolling basis over a five-year period"* (Para. 298).

13.8 *"Where values are determined other than by reference to readily available market prices, the notes to the accounts should disclose who has made the valuation, giving:*

(a) The name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity; and
(b) The basis or bases of valuation." (Para. 300).

Disclosure

13.9 The notes to the accounts should *"show all changes in values of investment assets and reconcile the opening and closing book values"* (Para. 302). This is normally provided in a table as set out below:

Analysis of movement of investments	£
Carrying value (market value) at beginning of year	a
Add: additions to investments at cost	b
Less: disposals at carrying value	(c)
Add/deduct: net gain/(loss) on revaluation	d
Carrying (market value) at end of year	e

13.10 There is no requirement to disclose the historic cost of the investments, although this will be relevant for charitable companies in calculating their unrealised gains and losses.

13.11 The notes should also show the total value of investment assets at the balance sheet date divided between classes of investment. This would normally include:

"(a) Investment properties.
(b) Investments listed on a recognised stock exchange [including common investment funds, open ended investment companies and unit trusts].
(c) Investments in subsidiary or associated undertakings or in companies which are connected persons.
(d) Other unlisted securities.
(e) Cash and settlements pending, held as part of the investment portfolio.
(f) Any other investments." (Para. 303).

13.12 The above should be further analysed between investment assets in the UK and investment assets outside the UK. Shares (including shares or units in common investment funds, open ended investment companies and unit trusts) in companies listed on a UK stock exchange or incorporated in the UK are treated as investment assets in the UK for this purpose.

13.13 *"Further details should be given in the notes to the accounts of any particular investment that is considered material in the context of the investment portfolio."* (Para. 306). This replaces the previous requirement to disclose investments where the holding represented more than 5% of the portfolio, although this can still be used to define what is material if considered appropriate.

13.14 Rosanna Grant contains an example of an investment note.

14 RELATED PARTY TRANSACTIONS

14.1 The issue of related parties is important and complex for charities. There are essentially four key questions:

- What is a related party?
- What transactions are permissible with the related party, which require consent from the Charity Commission and which are simply not permitted?
- What disclosures are required in the annual accounts of the charity?
- How does the charity know that it is about to enter into a transaction with a related party?

14.2 SORP (and this Guidance) deal with the first, third and fourth of these questions. The starting point to answering the second question will normally be a review of the charity's governing documents. If there is any doubt as to whether a planned transaction is permitted, advice should be sought from the charity's lawyers or from the Charity Commission.

What is a related party?

14.3 Related parties include all of the following:

"(a) Any charity trustee and custodian trustee of the charity.

(b) Any person or body with:

> *(i) either the power to appoint or remove a significant proportion of the charity trustees of the charity. All or a majority of the trustees should always be treated as a "significant proportion". Fewer than 50% of the trustees may be a "significant proportion" if they collectively have a dominant influence on the operation of the charity, as, for example, is likely to be the case if one body has the power to appoint/remove seven of a body of 15 trustees, and eight other different bodies had the right to appoint/remove one each;*
> *(ii) or whose consent is required to the exercise of any of the discretions of those trustees;*
> *(iii) or who is entitled to give directions to those trustees as to the exercise of any of those discretions.*

(c) Any institution connected with the charity, and any director of such an institution. An institution is connected with a charity if either:

> *(i) it is controlled by (in Scotland managed or controlled by) the charity. "Controlled" means that the charity is able to secure that the affairs of the institution are conducted in accordance with its wishes. A charity will control another if it is trustee of that charity or has power to appoint or remove a significant proportion of its trustees; or*

(ii) a participating interest in it is beneficially owned by the charity. "Participating interest" means that the charity:

(a) is interested in shares comprised in the equity share capital of the body of a nominal value of more than one fifth of that share capital; or

(b) is entitled to exercise or control the exercise of more than one-fifth of the voting power at any general meeting of that body.

(d) Any other charity with which it is commonly controlled. Common control exists if:

(i) the same person, or persons have the right to appoint a majority of the charity trustees of both or all the charities; or

(ii) the same person, or persons, hold a majority of the voting rights in the administration of both or all of the charities.

Persons who are related with each other through family or business relationships should be treated as the same person for the present purposes.

A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be related if one charity subordinates its interests to the other charity in any transaction because of this relationship.

(e) Any pension fund for the benefit of:

(i) the employees of the charity, and/or

(ii) of any other person who is a related party of the charity;

(f) Any officer, agent or employee of the charity having authority or responsibility for directing or controlling the major activities or resources of the charity.

(g) Any person connected to a person who is related to the charity including:

(i) members of the same family or household of the charity trustee or related person who may be expected to influence, or be influenced by, that person in their dealings with the charity;

(ii) the trustees of any trust, not being a charity, the beneficiaries or potential beneficiaries of which include a charity trustee or related person or a person referred to in (i) as being connected with a charity trustee or to a related person, as the case may be;

(iii) any business partner of a charity trustee or related person, or of any person referred to in (i) or (ii) as being connected with a charity trustee or to a related person, as the case may be;

(iv) Any body corporate, not being a company which is controlled entirely by one or more charitable institutions, in which:

(a) the charity trustee has, or the charity trustee and any other charity trustee or trustees or person or persons referred to in (i),

(ii) or (iii) above as being connected with a charity trustee, taken together, have a participating interest; or

(b) the related person has, or the related person and any other related parties of the charity, taken together, have a participating interest.

(v) Any person or body who makes available to the charity the services of any person or body as a charity trustee is connected with a charity trustee." (GL50).

What disclosures are required in the accounts of the charity?

14.4 These are set out in Para. 227 as follows:

"(a) the name(s) of the transacting related party or parties;

(b) a description of the relationship between the parties (including the interest of the related party or parties in the transaction);

(c) a description of the transaction;

(d) the amounts involved;

(e) outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons;

(f) any amounts written off from such balances during the accounting year; and

(g) and any other elements of the transactions which are necessary for the understanding of the accounts."

In addition disclosure is required of *"investments in subsidiary or associated undertakings or in companies which are connected persons"* (Para. 303(c)).

The following disclosures are not required unless it is considered that the transactions are likely to influence the pursuance of the separate independent interests of the charity:

14.5 *"(a) donations received by the reporting charity from a related party, so long as the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation (but any material grant by the reporting charity to a charity which is a related party should be disclosed);*

(b) minor or routine unremunerated services provided to a charity by people related to it;

(c) contracts of employment between a charity and its employees (except where the employees are the charity trustees or people connected with them);

(d) contributions by a charity to a pension fund for the benefit of employees; [but see Other Disclosure Requirements below];

(e) the purchase from a charity by a related party of minor articles which are offered for sale to the general public on the same terms as are offered to the general public;

(f) the provision of services to a related party (including a charity trustee or person connected with a charity trustee), where the related party receives the services as part of a wider beneficiary class, and on the same terms as other members of the class (for example, the use of a village hall by members of its committee of management, as inhabitants of the area of benefit); and

(g) the payment or reimbursement of out-of-pocket expenses to a related party (including a charity trustee or person connected with a charity trustee" (Para 229) [but see Other Disclosure Requirements below].

14.6 It is not possible in the context of this Guidance to address all the issues that can arise in interpreting whether or not an entity or an individual is a related party of the charity and what disclosures are required. However, one issue which grant-making charities should consider is whether any of the recipients of their grants are related parties. Paragraph 229 (a) requires material grants by the reporting charity to a charity which is a related party to be disclosed. The same would apply where the payment was to a related party that was not another charity. In the case of payments to charities it is clear that simply having a common trustee does not of itself make the other charity a related party.

How does the charity know that it is about to enter into a transaction with a related party?

14.7 The charity should have procedures to ensure that potential related parties are reported on a timely basis to the appropriate person (e.g. the secretary or clerk). We recommend that the charity also maintains a register of trustees' interests. This should be subject to annual confirmation by each trustee (and new trustees when they join). We also recommend that trustees are asked to declare any interests at the start of any meeting and are excluded from any vote on a matter in which they have an interest.

14.8 An example of a related parties disclosure note is scheduled in the Rosanna Grant model accounts.

15. OTHER DISCLOSURE REQUIREMENTS

Trustee remuneration or other benefits and expenses

15.1 These are a form of related party transaction.

15.2 The payment of remuneration or other benefits to trustees (or individuals connected with any of the trustees) should always be disclosed, regardless of materiality. The payments should be analysed by named trustee (or person connected with the trustee) and by type (e.g. remuneration, pension contribution or other benefit). In the case of pension payments the benefits accruing should also be disclosed.

15.3 Where no trustees (or individuals connected with them) have received remuneration or benefits this should be stated.

15.4 Where trustees' expenses have been paid, the aggregate amount should be disclosed together with an indication of the nature of the expenses and the number of trustees involved. There is no requirement to disclose the names of the trustees who have been paid expenses.

15.5 Where no trustees receive expenses, this should be stated.

Staff costs and emoluments

15.6 The requirements are set out in Paras. 235 to 238 which are set out below:

15.7 *"The total staff costs should be shown in the notes to the accounts giving the split between gross wages and salaries, employer's national insurance costs and pension costs (those pension costs included within resources expended excluding pension finance costs) for the year. The average number of staff during the year should be provided and where material to the disclosure, e.g. due to the number of part-time staff, an estimate of the average number of full time equivalent employees for the year may be provided in the notes to the accounts providing sub-categories according to the manner in which the charity's activities are organised.*

15.8 *Where a charity is subject to a statutory audit then the notes should also show the number of employees whose emoluments for the year (including taxable benefits in kind but not employer pension costs) fell within each band of £10,000 from £60,000 upwards. Bands in which no employee's emoluments fell should not be listed.*

15.9 *In addition the following pension details should be disclosed in total for higher paid staff [i.e. those in excess of £60,000]:*
(a) contributions in the year for the provision of defined contribution scheme (normally money purchase schemes); and
(b) the number of staff to whom retirement benefits are accruing under defined contribution schemes and defined benefit schemes respectively.

15.10 *If there are no employees with emoluments above £60,000 this fact should be stated."*

15.11 Where staff services are supplied by another entity (e.g. an agency or a connected company) the note should outline the arrangements, the reasons for them and the amounts involved. This disclosure is only required where the amounts are material.

Cost of audit, independent examination or reporting accountant services and other financial services

15.12 The disclosure requirements are covered by Para. 239 which is set out below:

"The notes to the accounts should disclose separately the amounts payable to the auditor, independent examiner or reporting accountant in respect of:

(a) the costs of their respective external scrutiny; and
(b) other financial services such as taxation advice, consultancy, financial advice and accountancy."

16. AREAS OF SORP 2005 NOT COVERED BY THIS GUIDANCE

16.1 The following areas of SORP 2005 are not covered by this Guidance. This is either because they are not especially relevant to grant-making charities or because there are no significant changes introduced by SORP 2005 or the contents are self-explanatory.

- Introduction
  - The SORP and the law
  - Accounts structure
  - Summary financial information
- Trustees' Annual Report
  - Funds held as custodian trustee on behalf of others
- General accounting principles
  - Fundamental accounting concepts
  - Accounting standards
  - Branches
- Statement of Financial Activities
  - Contractual arrangements (performance related grants, subscriptions, long-term contracts etc.)
  - Funds received as agent
  - Gains and losses on fixed assets
  - Actuarial gains or losses on defined benefit pension schemes
- Other matters to be covered in notes to the accounts
  - Ex-gratia payments
- Balance sheet
  - Intangible fixed assets
  - Tangible fixed assets (other than investments)
  - Heritage assets
  - Current assets
  - Current liabilities and long-term creditors
  - Provision for liabilities and charges
  - Defined benefit pension scheme asset/liability
  - Share capital
  - Pension reserve
- Other balance sheet matters to be covered in the notes to the accounts
  - Guarantees
  - Financial derivative disclosure
  - Contingent assets and liabilities
  - Loan liabilities
- Disclosure of accounting policies
- Summary financial information and statements

- Summarised financial statements
- Summary financial information

Special sections

- Consolidation of subsidiary undertakings
- Associates, joint ventures and joint arrangements
- The SORP in relation to charitable companies in the UK
- Accounting for retirement benefits
- Common investment funds and investment pooling schemes

MODEL TRUSTEES' ANNUAL REPORT AND ACCOUNTS

The model accounts for the Max Grant Foundation have been prepared by Saffery Champness for the purpose of this Guidance and provide an example of a charity whose sole charitable activity is grant-making.

MAX GRANT FOUNDATION TRUSTEES' REPORT AND FINANCIAL STATEMENTS 30 JUNE 2006

LEGAL AND ADMINISTRATIVE INFORMATION

Constitution	Max Grant Foundation is a charitable trust governed by its trust deed. It is a registered charity No. 765432.
Trustees	The trustees who served during the year were: C. Dickens (Chair of trustees) A. Morris W. Smith S. Patel T. Green (appointed 1 May 2006) A. McDermott (deceased 16 March 2006)
Company Secretary	F. Davis
Chief Executive	E. Main
Principal Office	22, The Street Anytown AB12 CDE
Auditors	Audit firm Office Street London WC1 4DB
Bankers	ABC Bank 40, Finsbury Square London EC4 4JC
Solicitors	Lawyer and Co. 24, Legal Square London WC1 3AB
Investment Managers	The Investment Group 45, Finsbury Square, London EC4 4JB

The trustees are pleased to present their report together with the financial statements of the Foundation for the year ended 30 June 2006.

Legal and administrative information set out on page 46 forms part of this report.

History of the Foundation

The Max Grant Foundation was established in 1970 following an initial gift by the literary publisher, Max Grant. This initial capital was supplemented by a substantial legacy following Max Grant's death in 1975.

Objects of the Foundation

The Foundation's objects as set out in the trust deed are the advancement of any charitable purpose as the trustees at their discretion think fit, by the provision of grants for such purposes and the provision of grants to benefit any charity.

Structure, governance and management

The board of trustees of up to nine individuals administers the Foundation. Trustees are appointed by the Board of Trustees and serve for five years after which they may be reappointed by the board for a further five year term. No trustee may serve for more than ten years. The board regularly reviews the range of skills amongst trustees. The chairman is appointed by the trustees and serves for a three year term.

New trustees are found from the contacts and networks of existing trustees. When recruiting new trustees the board looks for individuals with skills and experience which are of value to the Foundation and which are not represented by existing trustees. Potential trustees are interviewed by the board and are provided with a pack of information including recent accounts and a copy of the trust deed. When a new trustee joins the board he is provided with further information regarding finances, governance and charitable objectives including minutes of trustees' meetings for the previous year.

Most trustees are highly experienced individuals and have a good understanding of what is involved in being the trustee of a charity. Where appropriate, the Foundation supports the training of trustees including, for example, attendance at seminars organised by the Association of Charitable Foundations of which the Foundation is a member.

The trustees meet three times a year to consider recommendations for, and make final decisions on, the awarding of grants. The day to day administration of grants and the processing of applications prior to consideration by the trustees is delegated to the Chief Executive who is supported by a small team of staff.

We record with deep sadness the death of Anthony McDermott who had been a trustee of the Foundation for just three years. His passionate advocacy of the needs of the poor and his interests in education and research into disease will be much missed. We welcome Tamara Green who was appointed a trustee in the period. She brings to the trust experience of working in investment management and an interest in the preservation of rural heritage.

Risk management

The trustees have considered the major risks to which the charity is exposed and have reviewed those risks and established systems and procedures to manage them.

Grant-making policy, aims and objectives

The Foundation normally only makes grants to other registered United Kingdom charities. The Foundation funds charities in a broad range of areas. Although for budgetary and disclosure purposes grants are analysed into separate categories, the trustees are interested in funding initiatives which meet their selection criteria regardless of the charitable area into which the grant falls.

Grant application process

The Foundation is listed in all the main directories and databases of grant-makers. An increasing number of grant applications are made through our website www.maxgrantfoundat.com from which grant application forms can be downloaded.

The grant application process is designed to be as easy as possible whilst still drawing out the key information needed for a decision. For administrative reasons, the minimum grant is normally £5,000.

Grant priorities and selection criteria

The trustees are particularly interested in:

- Providing seedcorn funding for charities with innovative ideas which could have a significant impact on their beneficiary category.
- Providing the first or last element of funding for projects which are funded from a variety of sources.
- Funding capital projects.
- Providing core funding to charities which are trying to establish themselves.

The trustees will generally not fund:

- Overseas projects
- Individuals and non-charitable entities

The Foundation does not actively seek to raise additional funds. The above priorities have been established for a number of years. Whilst they are reviewed each year they are unlikely to change radically in the foreseeable future.

Review of activities

During the year the Foundation made 90 grants totalling £2.85 million, net of cancelled grants.

An analysis is provided in note 6. Further information on grants awarded and what these are achieving can be obtained from our website www.maxgrantfoundat.com.

The following brief summary gives a flavour of the types of projects funded in the year. There have been no significant changes to the categories since last year.

Education (£ 450,000)

The Foundation made a grant of £250,000 to the I Hate School Charity to help fund a programme of alternative education for persistent truants and children who have been excluded by their schools.

Two grants of £100,000 each were made to charities which provide bursaries at independent day schools for pupils of exceptional talent who would not otherwise have been able to attend such schools.

Relief of poverty (£150,000)

30 grants totalling £150,000 were given to a variety of charities, some local and some national which relieve poverty in a number of ways, for example by providing white goods to pensioners.

Disabled people (£375,000)

A grant of £250,000 was given to The Richardson Sterne University to fund research into the effect of improvements in disabled access at the workplace on job opportunities for disabled people. A grant of £100,000 was given to the Meredith Charity to fund research into the design of better sports equipment for disabled people. Grants totalling £25,000 were given to a number of charities who work in the disability field.

Young people (£400,000)

Fifteen grants ranging from £5,000 to £50,000 were given to inner city youth clubs around the UK to fund the purchase of sports equipment. A condition of each grant was that the clubs were open to youth from all religious and ethnic backgrounds. One grant of £50,000 and two grants of £10,000 were given to charities which helped young people with a history of self harm.

Elderly people (£425,000)

One grant of £250,000 helped to fund the building of the Joyce Day Centre for elderly people in East London and a grant of £100,000 was made to fund an extension to the Casterbridge Hospice. This hospice takes terminally ill people and specialises in those suffering from mental illness. Grants totalling £75,000 were made to a range of other charities who help elderly people in a variety of ways.

Literary heritage (£200,000)

Two grants of £100,000 each were provided to fund learning centres attached to the former homes of eminent literary figures which are open to the public.

Religion (£250,000)

A grant of £250,000 was given to The Milton Institute of Comparative Religion to help fund academic research into the causes of religious intolerance.

Medicine (£600,000)

12 grants of £50,000 each were provided to fund charities which conduct research into particular diseases and provide help for those suffering from those diseases. In each case the charity we have funded is small and the disease is relatively unknown but causes great pain to those who suffer from it.

Performance monitoring and review

For all grants above £5,000 the Foundation asks for a report from the charity twelve months after the grant has been paid. For most grants the report is only required to describe briefly how the grant has been spent (and if not, when it is likely to be spent) and to comment as appropriate on what has been achieved. For larger and multi-year grants more detailed reporting may be required and a member of our staff may visit the recipient. A number of the larger grants are only paid following the fulfilment of certain conditions and some grants are paid in instalments which may be over several years. Where a grant is payable in instalments it is our usual practice not to release payment of the second and subsequent instalments until a progress review has been satisfactorily completed.

Financial review

Incoming resources

The Foundation is dependent on income from its investments. This amounted to £2,700,000 (2005: £2,500,000). Expenditure on grants increased to £2,850,000 (2005: £2,200,000) reflecting the trustees' decision to increase the level of spending following the recovery in the value of the endowment in recent years. After allowing for grant related support costs of £250,000 (2005: £230,000) and governance costs totalling £60,000 (2005: £50,000) there was a deficit on the unrestricted Income Fund of £460,000 (2005: £20,000).

The trustees have exercised their option to spend expendable endowment in order to cover the deficit on the unrestricted Income Fund and have transferred £425,000 (2005: nil) from endowment to income. After taking account of the opening reserves this left a balance on the unrestricted Income Fund of £85,000 (2005: £120,000).

Investment policy and performance

The Foundation's policy is to set a total return for the investment portfolio and to allocate a proportion of the return (up to a maximum of 5% of the endowment) to cover all expenditure. The trustees aim to ensure that the real value of the endowment is maintained over the long term.

For 2006 the targeted total return before fees was 9%. The actual return achieved was 8.3% before fees (2005: 7.5%). This compares with the FTSE All-Share Index benchmark of 8.1%. Total expenditure (including investment management fees charged against endowment) amounted to £3,420,000 (£2,730,000) which represents 5.06% (2005: 4.3%) of the endowment fund at the beginning of the year.

Reserves policy

Reserves represents the balance on the unrestricted Income Fund which at 30 June 2006 was £85,000 (2005: £120,000). Provided the policies set out above are being achieved the trustees have no set views on the level of the unrestricted Income Fund, although it should not exceed six months of expenditure. The level of the unrestricted Income Fund will vary depending on the investment returns being achieved and the level of expenditure. The Foundation is managed in such a way that there is generally considerable scope to cut back grant giving if necessary. The trustees are willing to transfer amounts from the endowment to make up income shortfalls provided that this does not conflict with the above policies on investment and grant-making. Good investment decisions have ensured that the endowment has increased significantly in real terms which gives scope to fund income shortfalls as the need arises. The amount that trustees are willing to transfer will depend on the level of total return being achieved and how this is split between income and capital appreciation. Should the ability to fund shortfalls in this way start to be constrained the trustees would look to build up some reserves in the unrestricted Income Fund to try to avoid a sudden significant fall in the level of grant-making.

Future plans

The Foundation aims to maintain its annual grant giving at approximately £2,800,000. The grant giving policy remains as set out in this Report. However, the trustees would like to move to a position of giving a greater number of large grants and to reduce the number of small grants. However, this is secondary to the continued wish only to fund projects of real quality whether their financial need is great or small. The Foundation would welcome applications from charities which have not been funded by it before which meet the grant priorities and selection criteria set out above.

Trustees' responsibilities in relation to the financial statements

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year which give a true and fair view of the Foundation's financial activities in the year and of its financial position at the end of the year. In preparing financial statements giving a true and fair view, the trustees are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Foundation will continue in operation
- State whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Foundation and which enable them to ensure that the financial statements comply with the Charities Act 1993, the Charity (Accounts and Reports) Regulations 2005 and the provisions of the trust deed. They are also responsible for safeguarding the assets of the Foundation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the trustees on 15 October 2006 and signed on their behalf by:

……………………………………………

C Dickens
Chair of Trustees

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Unrestricted Income Fund £000	Expendable Endowment Fund £000	2006 Total Funds £000	2005 Total Funds £000
Incoming resources					
Investment income	**3**	2,700	–	2,700	2,500
Total incoming resources		2,700	–	2,700	2,500
Resources expended					
Costs of generating funds					
Investment management costs	**4**	–	260	260	250
Charitable activities					
Grant–making:					
Grant expenditure	**6**	2,850	–	2,850	2,200
Grant related support costs	**5**	250	–	250	230
Cost of grant–making		3,100	–	3,100	2,430
Governance costs	**5**	60	–	60	50
Total resources expended		3,160	260	3,420	2,730
Net outgoing resources before transfers		(460)	(260)	(720)	(230)
Transfers					
Gross transfers between funds	**7**	425	(425)	–	–
Net outgoing resources before other recognised gains and losses		(35)	(685)	(720)	(230)
Other recognised gains and losses					
Realised and unrealised gains and losses on investment assets		–	2,902	2,902	2,510
Net movement in funds		(35)	2,217	2,182	2,280
Reconciliation of funds					
Total funds brought forward		120	67,500	67,620	65,340
Total funds carried forward		**85**	**69,717**	**69,802**	**67,620**

All operations of the charity continued throughout both periods and no operations were acquired or discontinued in either period. All recognised gains and losses during the year are included within the Statement of Financial Activities. The accompanying notes form an integral part of this Statement of Financial Activities.

BALANCE SHEET AS AT 30 JUNE 2006

	Notes	Unrestricted Income Fund £000	Expendable Endowment Fund £000	2006 Total Funds £000	2005 Total Funds £000
Fixed assets					
Tangible assets	**9**	25	–	25	37
Investments	**10**	–	69,717	69,717	67,500
Total fixed assets		25	69,717	69,742	67,537
Current assets					
Debtors	**11**	40	–	40	38
Cash balances		411	–	411	329
		451	–	451	367
Liabilities					
Creditors falling due within one year	**12**	291	–	291	209
Net current assets		160	–	160	158
Total assets less current liabilities		185	–	69,902	67,695
Creditors: Amounts falling due after more than one year	**13**	100	–	100	75
Net assets		**85**	**69,717**	**69,802**	**67,620**
The funds of the charity:					
Expendable Endowment Fund		–	69,717	69,717	67,500
Unrestricted Income Fund		85	–	85	120
Total charity funds		**85**	**69,717**	**69,802**	**67,620**

The financial statements on pages 53 to 60 were approved by the board of trustees on 15 October 2006 and signed on their behalf by:

…………………………………………

C Dickens
Chair of Trustees

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with the Statement of Recommended Practice (SORP 2005) "Accounting and Reporting by Charities" published in March 2005, applicable accounting standards and the Charities Act 1993 and the Charity (Accounts and Reports) Regulations 2005.

1.2 Cash flow statement

The Foundation has taken advantage of the exemption in FRS1 and has not prepared a Cash flow Statement.

1.3 Fund accounting

The unrestricted Income Fund can be spent on any purpose within the Foundation's objects at the discretion of the trustees.

The Expendable Endowment Fund is primarily for income generation but is expendable at the trustees' discretion. The trustees have the discretion to transfer funds to the unrestricted Income Fund should the need arise.

1.4 Incoming Resources

All incoming resources are included in the statement of financial activities when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy. Interest and dividends are fully accrued at the balance sheet date.

1.5 Resources expended

Resources expended are included in the statement of financial activities on an accruals basis, inclusive of any VAT which cannot be recovered. Grants and donations payable are accounted for when a legal or constructive obligation arises. A constructive obligation arises where the other party has a reasonable expectation of receipt.

1.6 Conditional grants

Where payment of a grant is subject to a condition which is under the control of the Foundation no commitment is recognised until the condition has been fulfilled. Where a grant is payable subject to a condition which is not under the Foundation's control, a liability is recognised for payment of the grant as soon as the Foundation informs the recipient that the grant has been approved subject to condition. Such commitments are only reversed if and when it becomes clear that the condition will not be fulfilled.

1.7 Costs of generating funds

The costs of generating funds consist of investment management fees.

1.8 Charitable activities

The trustees consider that grant-making is the Foundation's sole charitable activity.

1.9 Support costs

These comprise staff and office costs. The majority of these costs support the grant-making activity and are so allocated. A small proportion of support costs is allocated to governance costs. The allocation of support costs is made on an estimate of staff time spent on the two activities.

1.10 Governance costs

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees together with an allocation of support costs.

1.11 Tangible fixed assets and depreciation

Fixed assets comprise office furniture and equipment and are depreciated on a straight-line basis over four years. All assets costing more than £1,000 are capitalised at historic cost.

1.12 Fixed asset investments

Quoted investments are included at mid-market price at the balance sheet date. All gains and losses, both realised and unrealised, are taken to the statement of financial activities as they arise.

1.13 Pensions

Employees of the Foundation are entitled to join a defined contribution "money purchase" scheme. The Foundation's contribution is restricted to the contributions in note 8. There were no outstanding contributions at the year end.

2 Related party transactions and trustees' remuneration

Trustees received no emoluments (2005: £nil) nor expenses in the year (2005: £nil).

3 Investment income

	2006 £000	2005 £000
Dividends – UK equities	1,560	1,350
Interest – UK fixed interest securities	1,012	1,025
Interest on cash deposits	128	125
	2,700	**2,500**

4 Costs of generating funds

	2006 £000	2005 £000
Investment management fees	**260**	**250**

5 Allocation of support costs

	2006 Total allocated £000	2006 Grant-making £000	2006 Governance £000	2005 Governance £000
Staff costs	185	160	25	24
Office rental and costs	93	80	13	8
Depreciation	12	10	2	2
Total	290	250	40	34
Legal fees			8	4
Auditors' remuneration			12	12
			60	**50**

All costs are apportioned on the basis of staff time.

The auditors' remuneration constituted an audit fee of £10,000 (2000: £9,500) and additional tax advisory work of £2,000 (2005: £2,500).

6 Analysis of institutional grants

	Grant size					
	Over £100,000 £000	£50,001 to £100,000 £000	£10,001 to £50,000 £000	Less than £10,000 £000	2006 Total £000	2005 Total £000
Education	250	200	–	–	450	500
Relief of poverty	–	–	–	150	150	275
Disabled people	250	100	20	5	375	180
Young People	–	–	390	10	400	150
Elderly People	250	100	60	15	425	500
Literary heritage	–	200	–	–	200	50
Religion	250	–	–	–	250	–
Medicine	–	–	600	–	600	420
Animal welfare	–	–	–	–	–	125
	1,000	**600**	**1,070**	**180**	**2,850**	**2,200**

The above figures are net of cancelled grants of £100,000 in the year. In addition to the grant commitments disclosed in notes 12 and 13, the Foundation had committed at 30 June 2006 to grants totalling £200,000 (2005: £100,000) which are subject to review before payment is authorised. These represent the future years' instalments of certain multi-year grant commitments. No grants are made to individuals.

Some information about the types of project and entities funded is given in the Trustees' Report. Further information on grants is available on the Foundation's website www.maxgrantfoundat.com

7 Fund transfers

A transfer of £425,000 was made from the Expendable Endowment Fund to the Unrestricted Income Fund to eliminate the deficit on that fund

8 Analysis of staff costs

	2006 £000	2005 £000
Salaries and wages	160	152
Social security costs	18	17
Other pension costs	7	7
Total	185	176

The average number of full time equivalent employees during the year was 4 (2005: 4) with all employee time involved in providing either support to the governance of the charity or support services to charitable activities.

No employees in either year had emoluments in excess of £60,000.

9 Tangible fixed assets

	£000
Furniture and equipment	
Cost	
At 1 July 2005 and at 30 June 2006	50
Depreciation	
At 1 July 2005	13
Charge for the year	12
At 30 June 2006	25
Net book value	
At 30 June 2005	37
At 30 June 2006	**25**

10 Fixed asset investments

	2006 £000	2005 £000
Movement in fixed asset investments		
Market value at 1 July 2005	67,500	65,240
Add: Additions to investments at cost	13,044	9,545
Disposals at carrying value	(13,729)	(9,795)
Add: net gain/(loss) on revaluation	2,902	2,510
Market value as at 30 June 2006	69,717	67,500
Investments at market value comprised:		
Equities	46,609	42,154
Fixed interest securities	20,308	22,646
Cash	2,800	2,700
Total	69,717	67,500

All investment assets were held in the UK. The trustees consider individual investment holdings in excess of 5% of the portfolio value to be material; there were no material investment holdings in the year.

11 Analysis of debtors

	2006 £000	2005 £000
Other debtors	17	16
Prepayments and accrued income	23	22
	40	38

12 Analysis of creditors falling due within one year

	2006 £000	2005 £000
Grants payable	250	175
Accruals	25	20
Other taxes and social security	16	14
	291	209

13 Amounts falling due after more than one year

	£000	£000
Grants payable	100	75

COMMENTARY ON THE MODEL TRUSTEES' ANNUAL REPORT AND ACCOUNTS: B E FACTOR TRUST

This commentary and Trustees' Annual Report and Accounts are reproduced from the Charity Commission's suite of model accounts under SORP 2005.

This example is an unincorporated grant-making trust constituted by a trust deed and the Trust has unrestricted and expendable endowment funds. This example, with input from PriceWaterhouseCoopers, has been developed in consultation with the Association of Charitable Foundations.

Although the total incoming resources were £352,146 in the year, the charity is not subject to audit because neither the gross income nor the total expenditure exceed the statutory audit threshold, currently £250,000; when calculating the gross income for audit threshold purposes, the additional donation of expendable endowment is disregarded (for further information refer to Appendix 3 of the Charity Commission publication "*CC63 Independent Examination of Charity Accounts*"). The charity is therefore below the audit threshold and can take advantage of the reduced reporting allowed under SORP 2005 (refer to Appendix 5) but on occasion the trustees have chosen to provide additional information or make additional accounting disclosures (Para. 10 and Appendix 5, Para 5.3.2).

This example also includes a statement by the independent examiner in accordance with the General Directions given by the Charity Commissioners (under section 43(7)(b) of the 1993 Act) and as set out in the booklet "*CC63 Independent Examination of Charity Accounts*". Auditors acting as independent examiners will also wish to refer to Appendix 7 of *"Audit Practice Note 11: The Audit of Charities in the United Kingdom"* issued by the Auditing Practices Board. Although acting for an audit firm, the independent examiner has signed under their own name, as required by the Regulations. (Note that the name of the partnership or company may be added.)

The Trustees' Annual Report

The annual report follows the order set out in the SORP with reference and administrative information which additionally includes the names of professional advisers (Para. 43) but the content and headings have been amended to take account of the charity's size (Para. 36). Although not required by the SORP (Para. 46), the policies for trustee induction and training are disclosed. The risk management statement is not a requirement for charities not subject to statutory audit (Para. 46) and additional information on the risks assessed has been voluntarily disclosed.

The section on procedures and policy for grant-making goes beyond the requirements of the SORP (Para. 52) and provides information on the nature of the grants made, the criteria applied and provides additional information about the process by which the grants are approved. Within this section the trustees also have gone beyond the requirements of the SORP applicable to smaller charities (Para. 54) and have advised their approach to monitoring the effectiveness of the grants made.

The section on achievements and performance reviews each activity in turn and discusses the use of programme related investment loans to advance the charity's objects.

Note that the review of investment performance is included in the investments section within the financial review section. The review of investments is not a requirement for charities not subject to statutory audit (Paras. 54 and 56) but has been disclosed by the trustees voluntarily (Appendix 5 Para. 5.3.2) and the disclosure goes beyond the requirements of the SORP to advise that an ethical investments policy has not been followed (such a disclosure is not required by either the 2005 Charities (Accounts and Reports) Regulations or the SORP).

The section on future plans is not a requirement of smaller charities (Para. 58) but has been disclosed as a matter of good practice.

The report concludes with a statement of trustees' responsibilities in relation to the financial statements which has been included in accordance with APB Audit Standards, although this statement is neither a requirement of the SORP nor of the Regulations applicable to an independent examination.

Limitation to grant disclosure (Para. 209)
A very small number of charities undertake grant-making where grant disclosure could seriously prejudice the furtherance of the purposes of the charity or beneficiaries. The opportunity has been taken to demonstrate how such matters should be disclosed (including disclosure to the Charity Commission). It is highly unlikely that this issue will feature in the accounts of most grant-makers.

The accounts

The Statement of Financial Activities has been re-ordered by the trustees to take advantage of the flexibility provided by the SORP (Para. 91) to report first on the main charitable activities undertaken separately from the governance costs of the charity. Investment management costs are charged against endowment and unrestricted funds (Para. 187).

The accounting policies include disclosure of the approach to impairment reviews for programme related investments (Para. 361).

The notes to the accounts analyse the grants made to institutions and individuals in note 8 (Para. 203) by area of activity (Para. 204). A representative sample of institutional grants are disclosed in note 9 (Para. 206) and reconciles to note 8 by area of activity (Para. 203). Details of particular institutional grants are withheld (Para. 200(d)) and the Appendix to the example provides a sample disclosure letter (Para. 209) to the Charity Commission.

Governance costs (Para. 212) and support costs (Para. 166) are disclosed in note 11 and support costs are allocated across activities (Para. 195) in note 8.

The charity has voluntarily provided, note 13, a statement analysing the net movement in funds (Para. 243).

Since the charity has not adopted the columnar format for the balance sheet format, the disclosure of assets and liabilities by category of fund is shown in note 19 to the accounts (Paras. 75(a) and 248).

BE FACTOR TRUST

Charity name and number

BE Factor Trust: registered charity number 215xxx

Correspondence address

The Solicitors, 1 The Marshes, Little Town, QR14 4FR

Trustees

Mr B E Factor OBE JP, Chair of trustees
Mrs A B Factor MA
Ms J J Clark BSc

Professional advisors

Legal advisors:

The Solicitors, 1 The Marshes, Little Town, QR14 4FR

Bankers:

Special Bank, 15, Cheapside, The Capital, CP14 2FT

Investment advisors:

Specialists, 44, The Marshes, The Capital, CP12 4NW

Independent examiner:

Audit Professionals LLP, The Manse, Little Town, QR1 4HM

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 30 NOVEMBER 2006

History, objectives and activities of the Trust

Ben Factor established a business, Factor Ltd, selling building and plumbing materials in 1950. As the business has grown it has diversified and it now has a chain of wholesale and retail stores selling building, plumbing and gardening supplies throughout middle England.

The charitable Trust was established on 1 December 1953 as a way of directing some of the profits of the business to a variety of good works. Both the initial donation and additional amounts donated since have been under terms which allow the trustees to either retain the amounts as capital or to spend them.

The Trust deed gives the trustees the power to apply the funds in such a manner as they think fit to or for the benefit of any charitable object or purpose. The trustees currently have a policy of supporting three types of activity: religious organisations; organisations providing craftsmanship training and the relief of poverty.

The trustees identify projects and organisations they wish to support and so the Trust does not make grants to people or organisations who apply speculatively. The Trust also has a policy of not responding to any correspondence unless it relates to grants it has agreed to make or to the general management of the Trust.

Management and governance arrangements

The trust deed provides for a minimum of 3 and a maximum of 8 trustees. Were there a requirement for new trustees, these would be identified and appointed by the remaining trustees. The chair of trustees is responsible for the induction of any new trustee which involves awareness of a trustee’s responsibilities, the governing document, administrative procedures, the history and philosophical approach of the charity. A new trustee would receive copies of the previous year’s annual report and accounts and a copy of the Charity Commission leaflet *"The Essential Trustee: What You Need to Know"*. The existing trustees have held office for over 10 years.

The trustees annually review the risks that the charity faces. To date these have mainly related to investment management and these have been ameliorated by diversified portfolio management. There are also minor areas of risk relating to employing staff which have been covered by proper procedures and insurance. In looking to the future trustees have also recently become aware of risks associated with making grants (for example fraud and charities seeking two grants for the same project) as more money becomes available. They will be looking at what procedures may be instituted to reduce risk in this area during the coming year.

Procedures and policy for grant-making

The trustees normally meet quarterly to consider what grants they will make and to review any feedback they have received. Nominations for grants are elicited by formal and informal means. The formal means involve limited targeted advertising in the trade press concerning craftsmanship training and contact with local Social Services Departments regarding grants for the relief of poverty. The trustees travel widely in the UK and abroad and use knowledge gained to support the work of the charity and to inform grant-making.

Though the trustees make some grants with no formal application, they normally ask invited organisations to submit a formal application saying how the funds would be used and what would be achieved. The trustees have a policy, which is communicated to all beneficiaries, that they make only one off grants with no guarantees of future funding.

The trustees always seek feedback on the actual use of the grants given and the achievements made, including those given to individuals. The explanations and feedback received are sufficient for monitoring the quality of the grants made.

The Trust has two part-time employees who handle the correspondence relating to grants. The financial affairs of the charity are handled by Factor Ltd. on a *pro bono* basis.

Achievements and performance of the Trust

During the year the Trust has been able to continue its support of three retreat houses (£20,000 each). These provide educational and retreat facilities for several hundred people each year and the Trust's support amounts to about 8% of the overall income of the retreat houses. The Trust also supports a local worship centre and religious work overseas in which the trustees have a particular interest.

In the area of craftsmanship training, the trust has continued to support training schemes in ten inner city areas. Each of these schemes intends to help people back into the job market. The grants have been targeted at developing 'craftsman' skills rather than computer, marketing and business skills. The trust has also decided in principle to begin providing loans rather than grants to a number of small community projects, to encourage these to develop into community training businesses. So far three loans have been given and 10 further loan applications are being evaluated. This approach will foster self reliance and recirculate funds over more than one project. The trustees are taking a slightly pessimistic view of how much will be repaid and have made provision for non-repayment accordingly.

There have been only a few areas where relief has been provided to poor individuals. This year grants, mainly to purchase household equipment, have been made to 15 individuals (2005 14). The trustees have however been deeply saddened by the plight of those suffering from recent natural disasters and have, unusually, provided three large donations to organisations giving famine relief in the Indian sub-continent and in Saharan Africa.

Financial review, investment policy and reserves

The trustees have set a policy that the expendable endowment should be invested so as to maximise the total return (capital growth plus income) with a medium level of risk. The income from investments for the year was £247,146. In addition £105,000 was given to increase the endowment.

Total return from the expendable endowment is split between funds retained as capital and funds used as income. Although the trustees have the power to spend the expendable endowment, the investment of capital is the only source of ongoing income and so the fund is invested with the objective of ensuring that the expendable endowment retains approximately its real value in the medium term. This approach means the money available to spend as income can fluctuate and, to ensure the amount available for grants remains relatively stable from year to year, the trustees plan to hold between 3 to 6 months grant expenditure as free reserves. The recovery of the stock market means that the amount available to spend has been gradually increasing and consequently reserves are being reduced.

The Trust employs *Specialists* as investment advisors and managers. They charge a flat fee (of £5,000 pa) and under their management the portfolio has produced a total return of 11.5% during the year. The Trust has chosen not to adopt formal ethical investment policies.

The net incoming resources, after grants and operational expenses of £248,923 (2005 £249,354) for the year was £3,223 (2005 an excess of expenditure of (£32,382)). The awarding of a number of loans instead of grants means that the actual free resources position (net current assets) at the year end was some £20,847 less than the year before. At the end of the financial year reserves were £90,825, around 4.6 months of grant expenditure. The adequacy of the reserves policy is reviewed annually.

Future plans

The trustees intend to continue providing grants in a similar way to the recent past continuing the emphasis on three areas of giving but retaining flexibility as to the timing, and scale of grant-making. The experiment with loans, a form of programme related investment, will run for a further three years and then be reviewed to see if is an appropriate way for the Trust to proceed in the long run.

The trustees consider that they are now reaching retirement age and are reviewing the operation of the Trust and how it will be managed in future.

Statement of trustees' responsibilities

Charity law requires the trustees to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the charity and its financial activities for that period. In preparing those financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operational existence.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charity and to enable them to ensure that the financial statements comply with the Charities Act 1993. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent examiner

The trustees intend to ask the existing auditors to undertake the independent examination of the Trust in the following year.

Signed on behalf of the trustees

Mr Ben E Factor

4 February 2007

INDEPENDENT EXAMINER'S REPORT TO THE TRUSTEES OF B E FACTOR TRUST

I report on the accounts of the Trust for the year ended 30 November 2006, which are set out on pages 70 to 78.

Respective responsibilities of trustees and examiner

The charity's trustees consider that an audit is not required for this year (under section 43(2) of the Charities Act 1993 (the Act)) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts (under section 43 of the Act);
- to follow the procedures laid down in the General Directions given by the Charity Commission (under section 43(7)(b) of the Act); and
- to state whether particular matters have come to my attention.

Basis of the independent examiner's report

My examination was carried out in accordance with the General Directions given by the Charity Commissioners. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

Independent examiner's statement

In the course of my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in, any material respect, the trustees have not met the requirements to ensure that:

- proper accounting records are kept (in accordance with section 41 of the 1993 Act); and
- accounts are prepared which agree with the accounting records and comply with the accounting requirements of the Act; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

I M Honest CCAB
Audit Professionals LLP
The Manse
Little Town
QR1 4HM

ACF

B E FACTOR STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 30 NOVEMBER 2006

	Notes	Unrestricted fund £	Endowment funds £	Total funds 2006 £	Total funds 2005 £
Incoming resources					
Incoming resources from generated funds					
• Voluntary income: donations	3	–	105,000	105,000	56,000
• Investment income	4	247,146		247,146	216,972
Total incoming resources		**247,146**	**105,000**	**352,146**	**272,972**
Resources expended					
Charitable activities	8-10				
• Religious organisations		85,780		85,780	101,750
• Craftsmanship training		108,560		108,560	110,752
• Relief of poverty		42,060		42,060	24,998
Sub–total		**236,400**	**–**	**236,400**	**237,500**
Costs of generating funds					–
• Investment management costs		–	5,000	5,000	5,000
Governance costs	11	7,523	–	7,523	6,854
Total resources expended		**243,923**	**5,000**	**248,923**	**249,354**
				–	
Net incoming resources		**3,223**	**100,000**	**103,223**	**23,618**
Other recognised gains/ losses					
Gain on revaluation of investments	16	–	42,984	42,984	202
Net movement in funds		**3,223**	**142,984**	**146,207**	**23,820**
Reconciliation of Funds					
Total funds brought forward		127,817	2,492,621	2,620,438	2,596,618
Total funds carried forward		**131,040**	**2,635,605**	**2,766,645**	**2,620,438**

B E FACTOR BALANCE SHEET AS AT 30 NOVEMBER 2006

	Notes	2006 £	2006 £	2005 £	2005 £
Fixed Assets					
Tangible assets	14		15,215		16,145
Programme related investments	15		25,000		–
Investments	16		2,635,605		2,492,621
			2,675,820		**2,508,766**
Current Assets					
Debtors	17	11,523		15,628	
Cash at bank and in hand		81,577		97,780	
		93,100		**113,408**	
Creditors: amounts falling due within one year	18	2,275		1,736	
Net Current Assets			**90,825**		**111,672**
Net Assets			**2,766,645**		**2,620,438**
Represented by:	19				
Unrestricted Fund			131,040		127,817
Endowment Funds			2,635,605		2,492,621
Total Funds			**2,766,645**		**2,620,438**

The financial statements on pages 72 to 78 were approved by the trustees on 4 February 2007 and signed on their behalf by:

Mr Ben E Factor

4 February 2007

NOTES TO THE ACCOUNTS

1 Accounting policies

In preparing the accounts the following accounting policies have been complied with:

a) The accounts have been prepared on the historic cost convention with the exception that investments are valued at market value. The accounts are in accordance with applicable accounting standards, the Charities SORP 2005 (Accounting and Reporting by Charities) and comply with the Charities (Accounts and Reports) Regulations 2005 issued under the Charities Act 1993.

b) Investment income is recorded when receivable.

c) Gift aid reclaimable on donations to the charity is included with the amount received.

d) Expenditure on grants is recorded once the Trust has made an unconditional commitment to pay the grant and this is communicated to the beneficiary or the grant has been paid, whichever is the earlier. The Trust has not made any grant commitments of more than one year.

e) Other expenditure is included in the accounts on an accruals basis. Irrecoverable VAT is charged to the SOFA as incurred.

f) The cost of managing investments is charged against investment capital, reflecting the total return approach to investment management. Any costs associated with the sale or purchase of investments are accounted for as part of the sale or purchase price of the investments.

g) Quoted investments have been valued at market value at the balance sheet date.

h) Unrealised and realised investment gains and losses are shown net in the statement of financial activities.

i) Programme related investments are reviewed at least annually for impairment and reviewed where the trustees are aware of circumstances which either reduce the value of the investment, or imply that loans made may not be repaid in part or in full.

j) The endowment of the charity is expendable endowment which is regularly increased by donations from the trustees. The trust deed allows this fund to be spent as income or retained as capital at the trustees' discretion. The income arising from the expendable endowment is unrestricted.

k) All assets costing more than £500 are capitalised. Depreciation on office equipment is charged on a straight line basis over 3-5 years.

2 Taxation

The Trust is a registered charity and accordingly is exempt from taxation on its income and gains where they are applied for charitable purposes.

3 Endowment

The voluntary income in the current and the previous year represent a donation from the trustees to the capital of the expendable endowment only.

4 Investment income has arisen as follows:

Source of Investment Income	2006 Total £	2005 Total £
Listed investments	244,101	214,426
Cash	3,045	2,546
Total	**247,146**	**216,972**

5 Analysis of employee costs:

	2006 £	2005 £
Salaries	16,082	14,500
Social Security Costs	1,762	1,595
Total	**17,844**	**16,095**

No employee received emoluments of over £60,000 during the year (2005 nil).

The average number of full time equivalent employees for the year was 0.9 (2005 0.9fte) and both part time staff (2005 two part time staff) were employed almost entirely on dealing with grant applications.

6 Related party transactions

None of the trustees were paid any remuneration or expenses by the charity during the year (2005 none).

7 Donated services

The trustees together hold a controlling personal interest in Factor Ltd. The charity receives free accounting services which are not valued in the accounts on the grounds that these are not considered material to the charity.

8 Analysis of charitable expenditure

The charity did not undertake any activity directly but met its charitable purposes by making grants and loans. Although the loans are repayable, where information available suggests that a loan is impaired (refer to note 15), the impairment is charged against charitable activities undertaken in the year. Grants and loans made by the Trust fall into three activity groups. The total amount of charitable activities, programme related investment loan impairment, grants paid (analysed between institutional grants and grants to individuals), and support costs analysed in relation to each activity group was as follows:

Programme	Loan Impairment £	Grant Funding Institutions £	Grant Funding Individuals £	Support costs £	Total £
Religious organisations	–	81,500	–	4,280	85,780
Craftsman training	5,000	95,000	–	8,560	108,560
Relief of poverty	–	29,000	4,500	8,560	42,060
Total	**5,000**	**205,500**	**4,500**	**21,400**	**236,400**

9 Analysis of grants made to institutions

Grants made to institutions were a material part of the total resources expended by the charity. The major grants made were as follows.

Institution	Total Amount paid £	£
Religious Organisations		
Retreat Houses Ltd	60,000	
Greenhays worship centre	5,000	
Others	16,500	81,500
Craftsman Training		
Capital training (England)	70,000	
Small town trainers	17,500	
Others	7,500	95,000
Relief of poverty		
British Red Cross	13,000	
Medecins Sans Frontiers	13,500	
Others	2,500	29,000
Total		**205,500**

10 Non disclosure of grants to named institutions

The trustees have not disclosed details of grants made to two organisations, one religious and one for craftsmanship training, totalling £21,000, because they believe that doing so would seriously prejudice the purposes of either the Trust or the recipients of the grants. The Charity Commission have been advised of the details of the grants concerned and the reasons for withholding disclosure.

11 Support costs

Support costs, consisting of the office costs of the trust, including staff salaries, are split between grant-making and governance on the estimated time spent on each activity as shown in the table below. Support costs apportioned to the different aims of the charity are shown in note 8 above.

Support Costs	Basis of apportion-ment	Charitable Activity £	Governance £	2006 Total £	2005 Total £
Office Costs	Work done	21,400	5,500	26,900	23,865
Legal & Professional	Actual	–	523	523	1,650
Independent examiner's fees	Actual	–	1,500	1,500	1,250
Total resources expended		**21,400**	**7,523**	**28,923**	**26,765**

12 The resources expended by the charity include:

	2006 £	2005 £
Independent examiner's fee	1,500	1,250
Legal and professional fees	523	1,650
Depreciation	4,570	3,900

13 Analysis of the net movement in funds

This statement shows how the net movement in funds relates to the change in net resources available to finance future charitable expenditure, after taking account of resources released or (committed) to: fixed assets, programme related investments furthering the charity's objects, and endowment funds received, which are not available to spend as income.

	Unrestricted funds £	Endowment funds £	Total £
Net Movement in funds	3,223	142,984	146,207
Less increase in endowment capital	–	(142,984)	(142,984)
Net cash released from fixed assets	930	–	930
Programme related loans	(25,000)	–	(25,000)
Changes in resources available to spend	**(20,847)**	**–**	**(20,847)**

14 Tangible fixed assets

Movement on the charity's tangible fixed assets were:

Tangible Fixed Assets	Office Equipment £
Cost	
At 1 December 2005	23,430
Additions	3,640
Disposals	(1,495)
At 30 November 2006	**25,575**
Depreciation	
At 1 December 2005	7,285
Depreciation charge for year	4,570
Disposals	(1,495)
At 30 November 2006	**10,360**
Net Book Value	
At 1 December 2005	16,145
At 30 November 2006	**15,215**

15 Programme related investments

The Trust has made three investments in social enterprises rather than give outright grants. These investments are loans for the purchase of equipment for three training centres. The loans are repayable by instalments over 5 years commencing one year after being made. No interest is chargeable for the first year but thereafter will be at 1% below Bank of England base rate. The trustees review the loans advanced, at least annually at the balance sheet date, and impair those loans where information available implies a likelihood of non repayment.

The trustees have received a request prior to the year end from a loan recipient to suspend the first and future loan repayments due to business difficulties and so a charge has been made for loan impairment, the non-payment of part of the loans outstanding, as a matter of prudence for the full value of the loan, of £5,000. The balance of loans advanced is £25,000 as at 30 November. A further 8 loans (mostly for smaller amounts) are expected to be granted early in 2007.

16 Investment asset investments

All investments (excluding programme related investments) were all held in the UK and were as follows:

Investments Held	Endowment Funds £	2006 Total £	2005 Total £
Listed investments			
Stocks and Shares	1,686,333	1,686,333	1,436,535
CIFs	280,000	280,000	290,000
Bonds	648,772	648,772	748,041
	2,615,105	**2,615,105**	**2,474,576**
Cash	20,500	20,500	18,045
Total	**2,635,605**	**2,635,605**	**2,492,621**

Movements in fixed asset investments were:

	2006 £
Carrying value (market value) at beginning of year	2,492,621
Add: Additions to investments at cost	222,653
Less: Disposals at carrying value	(122,653)
Add/deduct Net gain/(loss) on revaluation	42,984
Carrying value (market value) at end of year	2,635,605

17 Analysis of debtors

The debtors figure is investment income due (2005 investment income due).

18 Analysis of creditors

	2006 £	2005 £
Independent examiner's fee	1,500	1,250
Trade creditors	775	486
	2,275	1,736

19 Analysis of fund assets and liabilities

	Unrestricted funds £	Endowment funds £	Total £
Tangible fixed assets	15,215	–	15,215
Programme Related Investments	25,000	–	
Fixed Asset Investments	–	2,635,605	
Sub total investments:			2,660,605
Current assets	93,100	–	93,100
Current liabilities	(2,275)	–	(2,275)
Total	**131,040**	**2,635,605**	**2,766,645**

The unrestricted funds of the charity may be applied for any charitable purpose at the discretion of the trustees.

The expendable endowment and additions thereto are to be invested and the income used for any charitable purpose at the discretion of the trustees. The expendable endowment may also be spent at the absolute discretion of the trustees.

APPENDIX: NON DISCLOSURE OF DETAILS OF INSTITUTIONAL GRANTS WHERE TO DO SO WOULD BE PREJUDICIAL TO THE RECIPIENT INSTITUTION OR THE DONOR CHARITY (SORP PARAGRAPH 209)

Normally it would not be possible to see the declaration in the notes to the accounts, for example under note 10. However the following is the sort of declaration that should be made to the Charity Commission:

> Dear Sirs,
>
> B E Factor Trust, Registered Charity 215xxx
>
> Confidential disclosure of grant details withheld in the 2006 Trustees' Annual Report and Accounts
>
> The trust has made two grants to institutions during the year which it has not disclosed in the Trust's annual accounts because it believes that to do so would be seriously prejudicial to both the charity and the recipient.
>
> One grant was for £15,000 to a religious retreat house in the Middle East. If it were to become public knowledge that this house was being supported by a UK charity those managing the house (all of whom are nationals of the country concerned) may be subject to physical attack.
>
> The second grant was for £6,000 to support training of laboratory staff who work in a (charitable) research establishment which is involved to some extent in the use of animals for drug testing. If this were to become public knowledge it may result in the trustees, the training establishment and the stores of Factor Ltd being targeted and subject to violent harassment and intimidation.
>
> Please retain this document on your non-public files.
>
> Yours sincerely
>
> BE Factor on behalf of BE Factor Trust

COMMENTARY ON THE MODEL TRUSTEES' ANNUAL REPORT AND ACCOUNTS: THE ROSANNA GRANT TRUST

This commentary and Trustees' Annual Report and Accounts are reproduced from the Charity Commission's suite of model accounts under SORP 2005.

This example is an unincorporated grant-making trust constituted by a trust deed. The Trust has unrestricted, restricted and endowment funds which are invested under a power of total return. The Trust has an income of £1.3m and total net assets of £27.9m. The Trust received a gift of expendable endowment in 2005 with restrictions as to how the income derived from it may be spent. The example has been modified following the consultation exercise facilitated by the Association of Charitable Foundations.

The Trustees' Annual Report

The annual report follows the order set out in the SORP. The risk management statement goes beyond the disclosure required by the SORP and includes additional information on the risks assessed. The grant-making policy provides information on the nature of the grants made, the criteria applied and provides additional information about the process by which the grants are approved. The section on achievements and performance reviews each activity in turn and concludes with performance information, in tabular form, illustrating the actual achievement measured in the year, and the preceding year against the plan, under the heading 'monitoring achievement'.

Note that the review of investment performance is included in the investments section within the financial review section. The review of investments includes a reference to the Charity Commission granting a power of total return. This disclosure is a requirement of the Charity Commission order made under section 26 of the Charities Act 1993. The application of the power of total return has implications for the reserves requirement as noted in the reserves policy section. The reserves policy also considers the requirements of the scholarship programme funded from restricted funds separately, in accordance with Charity Commission guidance set out in booklet *"CC19, Charities' Reserves*".

The section on future plans distinguishes between the broader strategic vision and specific plans for the following financial year.

The report concludes with a statement of trustees' responsibilities in relation to the financial statements which has been included in accordance with APB Audit Standards, although this statement is not a requirement of the SORP.

The accounts

The Statement of Financial Activities reports the main charitable activities undertaken separately from the governance costs of the charity. Investment management costs are charged against endowment and unrestricted funds (Para. 187). Note the gross transfer between funds where the power of total return is being exercised and the reconciliation in note 14 (Para. 75e).

The resources expended on grants shown in the SOFA include both liabilities (Para. 148) and provisions for grant commitments (Paras. 321 and 328) with the grant commitments analysed in note 17. The liabilities for years 2 and 3 of the multi-year PhD students reflect an annual review process routinely determined by factors outside of the trustees' control (Para. 159).

A contingent liability is disclosed concerning a planned future grant (note 18), where a liability has not been accrued (Para 161) and recognition of a possible obligation is contingent on the occurrence of one or more uncertain future events not wholly within the charity's control.

Note that the grant awards for research posts (note 7) are reviewed annually and are subject to the condition of a progress report with each subsequent grant wholly dependent upon demonstrating satisfactory progress. Since the Trust has the requisite expert knowledge to perform each assessment and determine whether the condition has been met, a liability is only recognised for the grant paid in year (Para. 159). Had there been no condition or the condition was outside of the control of the Trust, a liability would have had to have been accrued for future salary payments in subsequent years using reasonable assumptions, for example average academic tenure.

Governance costs are disclosed in note 5 and support costs and their allocation are analysed in notes 5 and 6.

On the face of the balance sheet, the types of fund are disclosed and the provisions for liabilities and charges are separately shown.

The note on total return (note 14) illustrates the granting of the power part way through the financial year. With the investment approach considered to apply for the whole period, the income from investments for the period prior to notification of the power has not been allocated to unrestricted funds, as would normally be the case, instead the trustees have taken account of that income when setting the amount of unapplied total return to be spent in the year (note 9). Had the trustees only applied the approach subsequent to the granting of the power, then the investment return for the early part of the year would have been allocated to unrestricted funds and would not have been included in the unapplied total return calculation.

THE ROSANNA GRANT TRUST REPORT AND FINANCIAL STATEMENTS YEAR ENDED: 30 SEPTEMBER 2006

Reference and administrative information

Trustees

M Hope, Chair of Trustees
N Jones, Treasurer
Professor O Smith, Chair of Scientific Panel (reappointed 1/9/2006)
P Murphy, Chair of Scholarship Panel
Q Rose (reappointed 1/9/2006)
R Revel (reappointed 1/9/2006)
S Bellingham

Chief Executive

A N Executive

Principal Office

One Office, Office Street, London, SE2 3LA

Charity Number: 987654

Auditors

A Charity Auditor, London, EC2V 7JB

Bankers

ABC Bank, 40 Finsbury Square, London, EC4 4JC

Solicitors

A Charity Solicitor, London, W1 3PQ

Investment Managers

The Investment Group, 45 Finsbury Square, London, EC4 4JB

REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 SEPTEMBER 2006

The trustees present their report along with the financial statements of the charity for the year ended 30 September 2006. The financial statements have been prepared in accordance with the accounting policies set out in note 1 to the accounts and comply with the charity's trust deed, the Charities Act 1993 and the Statement of Recommended Practice: Accounting and Reporting by Charities 2005.

Structure, governance and management

The Trust is an unincorporated trust, constituted under a trust deed dated 17 May 1964 and is a registered charity, number 987654. The Trust was established by an initial gift from Sir Christopher Grant in 1964 following the death of his beloved wife, Rosanna Grant, from complications associated with Alzheimer's disease. Over the years the Grant family has made substantial gifts to the charity and the legacy of the Rosanna Grant Trust is a lasting tribute to Sir Christopher and Lady Grant. The Trust does not actively fundraise and seeks to continue the philanthropic work desired by the donor through the careful stewardship of its existing resources.

The trustees are appointed by the Board of Trustees and serve for five years after which period they may put themselves forward for re-appointment. The Trust Deed provides for a minimum of 3 trustees, to a maximum of 9 trustees, with no more than 3 trustees due for re-appointment in any one year.

At the quarterly trustees' meeting, the trustees agree the broad strategy and areas of activity for the Trust, including consideration of grant-making, investment, reserves and risk management policies and performance. The day to day administration of grants and the processing and handling of applications prior to consideration by the relevant sub committee is delegated to the Chief Executive and the administrator.

Assisting the trustees, the Scientific and Scholarship Sub Committees meet at least quarterly, prior to the main trustees' meeting, to consider new grant applications meeting the relevant criteria and recommendations for funding. The Sub Committees also consider the monitoring information concerning the performance of grants to date, and make recommendations to the Board of Trustees concerning the extension, cessation or suspension of existing grant approvals. In the busy early summer period when new applications are approved, the sub committees may meet on a more frequent basis. The sub committees have the power to co-opt academic experts as scientific or educational advisers.

The Board remain grateful to Paula Murphy for chairing the Scholarship Sub Committee and to Professor Oriel Smith for chairing the Scientific Sub Committee. Professor Smith was due to retire, however he has kindly agreed to chair the Scientific Sub Committee for at least a further year. Following the convening of the Nomination Sub Committee and acceptance of its recommendation by the Board, the Board was hoping to confirm the appointment of Professor Emellius Brown as a new trustee to chair the Scientific Sub Committee; Professor Brown is eminent in his field, with particular knowledge of genome research and the genetic susceptibility to dementia, however continuation of his work in Geneva has delayed his return to the UK.

The Board keeps the skill requirements for the Trustee Body under review and in the event that a trustee permanently retires or additional new trustees are required, the board sets up a Nominations Sub Committee to recruit the new trustee(s). New trustees may be sought by open advertisement or through a dialogue with major grant recipients. Respecting the ethos of the Trust to continue the philanthropic work intended by the donor, the views of the Grant family, who remain generous donors, sponsors and advocates for the charity, are also taken into account when appointing from the shortlist drawn up by the Nominations Sub Committee. The ultimate decision on selection is, however, a matter for the Board of Trustees.

The induction process for any newly-appointed trustee comprises an initial meeting with the Chair and the Board, followed by a series of short meetings with the Chief Executive on investments, the grant-making process, powers and responsibilities of the trustee board and the sub committees. The welcome pack includes a brief history of the Trust, copy Board and sub committee minutes, a copy of the last three years' of annual reports and accounts, a copy of the governing trust deed and a copy of the Charity Commission's guidance *"The Essential Trustee: What You Need to Know"*.

The Trust is a member of the Association of Charitable Foundations (ACF). The ACF provides much helpful information on good practice, changes in the law affecting charities and acts as an authoritative lobby on behalf of the charitable foundations with the government and regulators.

Risk management

The charity trustees have considered the major risks to which the charity is exposed and have reviewed those risks and established systems and procedures to manage those risks. The trustees consider variability of investment returns on the permanent endowment to constitute the charity's major risk. They have obtained an order from the Charity Commission, allowing them to use a total return approach in relation to these investments. The Trustees consider that the use of a total return approach will stabilise the resources available for grant-making, thereby facilitating longer term grants and a more stable number of scholarship awards.

Objectives and activities

The objects of the Trust are the promotion of education and research into the study and cure of Alzheimer's disease and related conditions through making grants to appropriate institutions and individuals.

The aims of the Trust are:

- To fund research and teaching related to the treatment, cure and nursing of Alzheimer's disease and related conditions. The research funded is both pure research and, under the heading of innovation, applied research with the objective of ending this tragic degenerative disease and improving the lives of sufferers and their families. The Trust funds the salaries of professors and lecturers where their role includes research activity that will further the objects of the charity.
- To finance scholarships to individuals undertaking postgraduate research, normally at PhD or MD but exceptionally at Masters level, where the student's area of interest furthers the objects of the charity.
- To provide grants to projects that seek to provide innovations in care as a form of applied research.

The objectives for the year are shaped by these strategic aims with a view to maintaining a stable scholarship programme and to continue funding research. In 2006, the first innovation grant was made to further the social care aspect of applied research with a view to improving the emotional and physical well-being of sufferers and relatives now, whilst the research effort is ongoing for a cure.

The Trust looks to achieve its strategic aims and carry out its operational objectives of the year through partnerships with institutions, in particular to develop and deepen the existing partnerships with the Universities of Slough and Taunton and the Manchester Institute of Technology.

The CG Scholarships Fund was established by gift in 2005, following a supplementary gift from the Grant family. The trustees have the power to spend or retain both capital and income and so the fund is classed as expendable endowment. The fund's objects are to provide institutions with grants to fund scholarships for postgraduate students having a specific research interest in Alzheimer's disease and related conditions. Institutions may use the whole grant in one year (perhaps to fund two students) or may carry all or part of the grant forward to another year. The trustees made three awards of these one-off grants in the year to the University of Taunton.

Grant-making policy

The Trust invites applications for research grants and applied research ('innovation') grants from institutions by advertising in the specialist press. Institutional applicants submit a summary of their proposals to the trustees in a specific format, together with outline ethics approval. Applications made in the correct format are reviewed against the scientific research criteria established by the Scientific Sub Committee and the research objectives. In 2006 the trustees approved the first innovation grant for applied research.

Research posts are funded on an annual basis to undertake an agreed programme of research and continuation of the grants is subject to the annual assessment of the Scientific Sub Committee. Grant recipients file an annual progress report in the summer and they may also be occasionally required to appear before the Scientific Sub Committee to answer questions upon scientific progress or direction. The findings and recommendations of the Scientific Sub Committee are reported to the Trustee Board in late August and renewal of funding, which is solely at the discretion of the Trust, is notified in early September. Grants are only continued where the applicant remains in post and are automatically terminated in the event that the named applicant leaves the research institution. In all cases, continuation of funding is subject to the research undertaken being in the interests of the Trust and a progress assessment that is satisfactory.

The Trust also invites individuals from any part of the world who are enrolling or enrolled on a PhD or masters studies programme concerned with Alzheimer's disease and related conditions, to apply for scholarships. These can amount to a maximum of £9,000 per annum. Applicants must complete a standard form and provide a research proposal. In certain cases candidates are invited to interview by the Scholarship Sub Committee. Progress towards a PhD is monitored every 6 months and reported by the student's host institution. Although each grant is made for a maximum of 12 months, there is a facility for renewal for a maximum of 4 years, for those in full time study, and 6 years, for those in part time study. The Scholarship Sub Committee receives the progress reports and makes recommendations each July to the Trustee Board concerning continuation of student grants. Although the Scholarship Sub Committee has discretion to consider a student's progress independently of the progress report and hear appeals from students for continued funding, the evidence of progress provided by the host institution is normally accepted. An additional condition of each student grant is that a copy of the final reports on each piece of research is made publicly available by the recipient institution or of the institution making the educational award.

Grants from the CG Scholarship Fund may be made to any institution worldwide undertaking relevant research. Any recipient institution must have a proven track record of Alzheimer's research and have suitable application and monitoring procedures for students. The trustees' policy is to make two or three large, single year or multi-year grants a year from this fund rather than many smaller ones.

Details of how to apply for grants and scholarships, together with the relevant forms, are available on the charity's website.

Achievements and performance

Research grants and research posts

The Trust continues to fund two educational posts, one at the University of Slough and one at the Manchester Institute of Technology. The embedding of educational roles with an explicit interest in Alzheimer's disease research is a cornerstone of the Trust's long term philosophy of raising awareness and knowledge and the Trust is pleased to continue these important collaborations. The funding is related to the tenure of the specific lecturer or professor.

The research programme continued and has included support for the following projects:

- at the University of Taunton:
  - ground breaking work into the use of drug therapies for Alzheimer's patients and
  - the effective management of Alzheimer's in nursing homes with a view to identifying and disseminating good nursing practice.

- at the Manchester Institute of Technology:
  - lifestyle research to identify any potential early indicators of a higher probability of suffering dementia
  - a study of the awareness of general practitioners about the early symptoms and indications of Alzheimer's disease. The early diagnosis, whilst a source of pain and sadness to families, does offer reassurance about why their loved ones' behaviour has changed and enables them to obtain support much earlier and thereby improve the lives of sufferers and their carers.

2006 was the first year of the new innovation programme of applied research. This new initiative broadened the approach away from wholly educational grants and academic research. By funding the Manchester Institute of Technology outreach into the local community of Manchester to evaluate the impact of Alzheimer's disease on family and carers, pre admission of the sufferer to a nursing home or hospital in-patient facility, the trustees hope to further assist understanding of treatment regimen. The research aims to identify best practice and to apply it in the community setting to relieve the burden on carers and permit a sufferer to remain longer with their family. Promising areas identified were the use of home aids, emergency call alarms, deployment of occupational health and District Nursing services effectively and the use of music and aromatherapy. Although initially planned as a one year grant, following the early success of the programme, the Trustee Board approved the immediate renewal of the programme for a further year, with the option of an additional extension subject to the satisfactory conclusion of negotiations with the University of initial one year grant, is to be extended for a further year with up to a further two years, subject to the satisfactory outcome of negotiations with the University of Taunton.

Student grant awards

The year proved very successful in terms of the number of grants and amount of funds awarded. The standard of applications was consistently high and the new internet based advice and application process reduced the number of poor quality or inappropriate requests. The trustees intend to increase the number of grants awarded and were pleased to see a marked improvement in the quality of applications, with 19 new PhD and masters scholarships awarded from 30 applications (63%) as opposed to 21 scholarships from 46 applications (46%) in 2005. The trustees are pleased to note that the vast majority of PhD students successfully continue their studies and on average obtain their PhD in under 4 years. During the year 15 PhD's and 8 master students funded by the Trust completed their theses and awards. In total over 70 academic papers on Alzheimer's related topics were published around 70% of which resulted in significant advances in research or treatment of the condition.

The number of grants cancelled or recovered continues to be a small proportion of the funds awarded with £18,000 of grants cancelled or recovered in 2006 (£10,000 in 2005), largely due to students dropping out in the first few months or not taking up their PhD or masters place.

CG scholarship awards

Three grants were made from the CG Scholarships Fund to the University of Taunton to provide funding for institutional bursaries for students at the University to undertake relevant research. The University demonstrated to the Scientific Sub Committee both a proven track record of Alzheimer's research and the capacity to identify, select and monitor students undertaking Alzheimer's disease research. A planned grant to the Higher College de Brugges for institutional bursaries for genome research was unable to proceed, although the Trustee Board hopes that this will proceed in 2007. It remains the trustees' policy to make two or three large, single year or multi-year grants a year from this fund rather than many smaller ones.

Monitoring achievement

The performance management information evaluated for the postgraduate programme is: the percentage of successful PhD applications, the number and average duration of successful PhD students and the number of academic papers accepted for publication from those supported by the Trust. Were there to be a pattern of PhD students not completing their studies successfully or not producing papers at a particular University, the trustees would initiate a dialogue to understand the situation and then consider the way forward with that institution.

With respect to pure and applied research, the completion of approved research projects and the number of research projects where the findings have been published are the indicators used. The achievement for research projects reflects awards in previous years that have concluded and been published. These performance indicators are summarised in the table below.

The performance of the CG Scholarships Fund grants and the applied research programme are monitored using reports from the institutions concerned. Feedback influences whether or not further grants will be given to that institution.

	Outcome 2006	Target 2006	Outcome 2005	Target 2005
Postgraduate scholarships percentage successful applications	63%	70%	46%	70%
Trust funded postgraduate scholarships completed	23	20	18	20
Postgraduate scholarships average duration of PhD	3 years 10 months	3 years	4 years 1 month	3 years
Number of academic papers accepted from postgraduate scholarship students	70	60	65	60
Number of research projects published	5	4	2	5
Percentage of research projects publishing within 2 years of completion	100%	100%	66%	100%

Financial review

The Trust is reliant on the income from its investments, the income from which was £1,314,000. The investment income supplemented by a reduction in reserves, facilitated a higher level of charitable activity than in 2005 with £1,200,000 spent on charitable activity including the governance of the Trust. Of the £1,040,000 paid in grants, £798,000 of grant funding was awarded to individual students and academic Institutions to fund PhDs.

Investment policy and performance

The Trust's investment strategy has been changed recently, following approval by the Charity Commission to the use of a total return approach to the investment of the permanent endowment.

In accordance with the terms of the Order, the trustees confirm that:

- in identifying the value of the portion of the permanent endowment that represented unapplied total return, the trustees first identified the value of the initial founding gift in 1964 and any subsequent gifts of permanent endowment up until the 15 January 2006; and
- when determining the amount of unapplied total return to transfer to income the trustees have considered the amount of income required to maintain the current level of charitable activity, the likely benefits to future generations of the research programme, and the likely needs of future beneficiaries; and
- when reaching their decision as to the unapplied total return to transfer to income, the trustees have taken professional advice from their investment advisers regarding the market outlook, investment trends and yield and the prospect for future capital growth.

Our investment advisors (The Investment Group) are now instructed to invest in a portfolio which will maximise total return with a medium to low risk portfolio and are managing both the expendable and permanent endowment on a total return basis.

The adoption of total return is expected to lead to a reduction in investment management fees in future years.

The total return on all investments, before fees, for 2006 was 8.26% (7.4% in 2005) against a target return of 8.5%. This compares with the FTSE All-Share Index benchmark of 8.36%.

Reserves policy

The trustees aim to maintain free reserves in unrestricted funds at a level which equates to approximately three months of unrestricted charitable expenditure. The trustees consider that this level will provide sufficient funds to respond to applications for grants and ensure that there are sufficient funds available to cover support and governance costs.

Last year the policy was to have 12 months reserves. The reason for the reduction to 3 months is that the total return approach allows trustees to transfer amounts from the unapplied total return fund in the case of urgent need.

The actual level of reserves at 30 September was £458,000 against an actual 3 month spend of £331,000. The current level of reserves is therefore higher than is needed and this will be adjusted by reducing the amount released from the unapplied total return fund.

The trustees have established an interim policy for withdrawal of funds from the unapplied total return fund which aims to maintain the real value of the permanent endowment in the medium term (5 years) and to maintain the level of grants within ±10% of the 2005-6 level. This will be reviewed once the revised investment portfolio is stabilised.

The Trustees consider the reserve requirements of the restricted CG Scholarships Fund separately. The income from the restricted CG Scholarships Fund is generated from the gift of expendable endowment, which the trustees consider to be solely for the purposes of investment and so to ensure stability in the grant-making programme, the restricted funds held back within restricted funds as a separate restricted reserve is to be equivalent to 12 months expenditure. The funds retained at 30 September were £226,000 against an annual spend of £297,000. The CG Scholarships Fund are subject to a contingent liability of £200,000 reflecting the initial dialogue with the Higher College de Brugges, details of which are disclosed in note 18 to the accounts. The level of grants made, including commitments, will be adjusted in 2007 to achieve the 12 month target for restricted reserves.

Plans for the future

The Rosanna Grant Trust is a lasting testimony to the generosity and philanthropic concerns of the donors, the Grant Family. By cementing the partnerships already in place, the PhD and educational and research programmes provide a longer term commitment and thereby encourage the long-term research and study which promise a cure for tomorrow.

Cementing partnerships with strategic alliances

The trustees are mindful of the potential devastating impact of Alzheimer's disease on an ageing population in the UK and the developed world and is looking to establish strategic alliances with research institutions and charities within the UK and overseas with a view to accelerating the pace of research and the development of medical technologies to arrest or avert the devastating impacts of this crippling disease.

To assist the sufferers of today, the trustees anticipate expanding the innovation programme and will be making a submission to the Department of Health for inclusion in the National Strategic Partnership Forum, established in 2004, with a view to becoming involved in local partnership working with NHS Primary Care Trusts. This involvement would broaden the impact of the innovation programme of applied research for the benefit of sufferers and their relatives.

The trustees are looking to broaden the institutional bursaries programme and to develop a strategic research funding alliance with the ADSRC Charity, which shares our aims, thereby pooling knowledge and expertise with a view to maximising the effectiveness of the research effort.

Grant awards

In the next 12 months, the Board anticipates:

- An increase in PhD awards subject to a favourable investment climate and a further deepening of collaboration with partner Universities which will facilitate an increased level of charitable grants in 2007.
- The continuation of the innovation grant project with the University of Taunton.
- The potential for a CG Scholarship award in support of the genome project, based at the Higher College de Brugges, and the continuation of the CG Scholarships programme.
- Continuation of the funding for the current research posts and consideration to funding an additional two posts.

Trustees' responsibilities in relation to the financial statements

The law applicable to charities in England and Wales requires the trustee(s) to prepare financial statements for each financial year which give a true and fair view of the charity's financial activities during the year and of its financial position at the end of the year. In preparing financial statements giving a true and fair view, the trustees should follow best practice and:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements; and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The trustees are responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the charity and which enable them to ascertain the financial position of the charity and which enable them to ensure that the financial statements comply with the Charities Act 1993, the Charity (Accounts and Reports) Regulations and the provisions of the trust deed. The trustees are responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the trustees on 12 January 2007 and signed on their behalf by:

M Hope

M HOPE CHAIR of TRUSTEES

THE ROSANNA GRANT TRUST STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDING 30 SEPTEMBER 2006

	Note	Un-restricted Funds £000	Restricted Funds £000	Endow-ment Funds £000	Total Funds 2006 £000	Total Funds 2005 £000
Incoming resources						
Incoming resources from generated funds:						
Voluntary income:						
Gift of expendable endowment		–	–	–	–	5961
Investment income	3	34	502	778	1314	1360
Total incoming resources		**34**	**502**	**778**	**1314**	**7321**
Resources expended						
Costs of generating funds:						
Investment management costs	4	2	–	124	126	120
Charitable activities:	6					
Research		125	–	–	125	115
Education		589	297	–	886	659
Innovation		139	–	–	139	–
Cost of grant-making		**853**	**297**	–	**1150**	**774**
Governance costs	8	50	–	–	50	43
Total resources expended		**905**	**297**	**124**	**1326**	**937**
Net (outgoing) incoming resources before transfers		**(871)**	**205**	**654**	**(12)**	**6384**
Transfers						
Gross transfers between funds	9	500	–	(500)	–	–
Net (outgoing) incoming resources before other recognised gains and losses		**(371)**	**205**	**154**	**(12)**	**6384**
Other recognised gains and losses:						
Realised and unrealised gains/ (losses) on investment assets	13	15	–	901	916	(103)
Net Movement in funds		**(356)**	**205**	**1055**	**904**	**6281**
Reconciliation of Funds						
Total Funds brought forward		830	21	26184	27035	20754
Total Funds carried forward		**474**	**226**	**27239**	**27939**	**27035**

THE ROSANNA GRANT TRUST BALANCE SHEET AS AT 30 SEPTEMBER 2006

	Note	Un-restricted Funds £000	Restricted Funds £000	Endow-ment Funds £000	Total Funds £000	Prior Year £000
Fixed assets:						
Tangible assets	12	16	–	–	16	17
Investments	13	800	–	27018	27818	26629
Total Fixed Assets		**816**	**–**	**27018**	**27834**	**26646**
Current assets:						
Debtors	15	38	14	17	69	42
Cash at bank and in hand		223	212	204	639	898
Total Current Assets		**261**	**226**	**221**	**708**	**940**
Liabilities:						
Creditors falling due within one year	16	393	–	–	393	367
Net Current assets		**(132)**	**226**	**221**	**315**	**573**
Total assets less current liabilities		**684**	**226**	**27239**	**28149**	**27219**
Creditors: Amounts falling due after more than one year	16	166	–	–	166	184
Provisions for liabilities and charges	17	44	–	–	44	–
Net assets		**474**	**226**	**27239**	**27939**	**27035**
The funds of the charity:	19					
Endowment funds						
Permanent Endowment		–	–	21101	21101	20223
Expendable Endowment		–	–	6138	6138	5961
Restricted income funds		–	226	–	226	21
Unrestricted income funds		474	–	–	474	830
Total charity funds		**474**	**226**	**27239**	**27939**	**27035**

The notes at pages 95 to 106 form part of these accounts.

Approved by the trustees on 12 January 2007 and signed on their behalf by:
M Hope
M HOPE CHAIR of TRUSTEES

NOTES ON THE ACCOUNTS

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historic cost convention, with the exception that investments are included at market value. The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities (SORP 2005) issued in March 2005 and applicable UK Accounting Standards and the Charities Act 1993.

(b) Funds structure

The charity has a single permanent endowment. The Sir Christopher Grant Bequest provides for the trustees to invest the capital in perpetuity, the income from which is wholly unrestricted. The purposes of the Bequest are for the general purposes of the Trust, namely to promote education and research into the study and cure of Alzheimer's Disease and related conditions through making grants to appropriate institutions and individuals.

There is also an expendable endowment fund, the CG Scholarship Fund, created by a gift from the Grant family. The income of this trust is restricted to providing grants to institutions to allow them to provide bursaries to postgraduate students carrying out research into Alzheimer's Disease. The terms of the Fund allow the income to be accumulated and the capital to be spent if the trustees so determine.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor or trust deed. There is a single restricted fund, the CG Scholarship Income Fund, restricted to providing grants to institutions to allow them to provide bursaries to postgraduate students carrying out research into Alzheimer's disease.

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include designated funds where the trustees, at their discretion, have created a fund for a specific purpose.

Further details of each fund are disclosed in note 19.

(c) Incoming resources

All incoming resources are recognised once the charity has entitlement to the resources, it is certain that the resources will be received and the monetary value of incoming resources can be measured with sufficient reliability.

(d) Resources expended

Liabilities are recognised as resources expended as soon as there is a legal or constructive obligation committing the charity to the expenditure. All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category.

Grants payable are payments made to third parties in the furtherance of the charitable objectives of the Trust. Single or multi-year grants are accounted for when either the recipient has a reasonable expectation that they will receive a grant and the trustees have agreed to pay the grant without condition, or the recipient has a reasonable expectation that they will receive a grant and any condition attaching to the grant is outside of the control of the Trust.

Provisions for grants are made when the intention to make a grant has been communicated to the recipient but there is uncertainty about either the timing of the grant or the amount of grant payable.

(e) Irrecoverable VAT

Irrecoverable VAT is charged against the category of resources expended for which it was incurred.

(f) Allocation of overhead and support costs

Overhead and support costs have been allocated first between charitable activity and governance. Overhead and support costs relating to Charitable Activities have been apportioned based on the number of individual grant awards made in recognition that the administrative costs of awarding, monitoring and assessing research grants, salary support grants and postgraduate scholarships are broadly equivalent. The allocation of overhead and support costs is analysed in note 5.

(g) Costs of generating funds

The costs of generating funds consist of investment management and certain legal fees.

(h) Charitable activities

Costs of charitable activities include grants made and an apportionment of overhead and support costs as shown in note 6.

(i) Governance costs

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees together with an apportionment of overhead and support costs.

(j) Tangible fixed assets and depreciation

All assets costing more than £1000 are capitalised and valued at historic cost.

Depreciation is charged on furniture and equipment which is written off on a straight-line basis over their estimated useful life of four years.

(k) Fixed asset investments

Investments are stated at market value as at the balance sheet date. The statement of financial activities includes the net gains and losses arising on revaluation and disposals throughout the year.

(l) Realised gains and losses

All gains and losses are taken to the statement of financial activities as they arise. Realised gains and losses on investments are calculated as the difference between sales proceeds and opening market value (purchase date if later). Unrealised gains and losses are calculated as the difference between the market value at the year end and opening market value (or purchase date if later). Realised and unrealised gains are not separated in the Statement of Financial Activities.

(m) Pensions

Employees of the charity are entitled to join a defined contribution 'money purchase' scheme. The charity contribution is restricted to the contributions disclosed in note 10. There were no outstanding contributions at the year end.

(n) Contingent liabilities and provisions

In accordance with the SORP, a contingent liability is disclosed for those grants, which do not represent liabilities, where the possible obligation, which arises from past events, will only be confirmed by the occurrence of one or more uncertain future events not wholly within the trustees' control. Provisions are recognised for those grants where there is uncertainty as to the timing or amount, and any uncertainty regarding the amount is more than one of determining a basis for reasonable estimation of the liability arising from that constructive obligation.

2 Related party transactions and trustees' remuneration

Trustees received no emoluments (2005 £nil). Expenses in the year totalled £982 (2005 £875) with 6 trustees reimbursed travel expenses of £475 (2005 £455) and seminar and conference related travel expenses for 2 trustees of £507 (2005 £420).

Professor Oriel Smith is also a member of the governing body of the University of Slough and the spouse of the Head of Faculty for Medical and Natural Sciences, University of Slough, which was in receipt of a grant for £58,000 to fund a higher education research and teaching post (note 7). Professor Smith played no part in the application for funding and withdrew from both the Scientific Sub Committee, when the assessment of the application was made, and the Trustee Board, when the grant approval was given.

In the year, the award of a PhD grant was approved for Hermione Murphy, the daughter of Paula Murphy, Chair of the Scholarship Sub Committee. Applications for a PhD are approved purely on merit and Paula Murphy withdrew from both the Scholarship Sub Committee, when the assessment of the grant application was made, and the Trustee Board, when the student grant was approved. The student grant awarded in 2006 was £8550. In total, the grant for the 3 years has been accrued at £25650.

3 Investment income

	2006 £000	2005 £000
Dividends–UK equities	788	770
Interest–UK fixed interest securities	493	556
Interest on cash deposits	33	34
	1,314	1,360

4 Investment management costs

	2006 £000	2005 £000
Legal fee	6	5
Investment management fees	120	115
	126	120

5 Allocation of support costs and overheads

The breakdown of support costs and how these were allocated between Governance and Charitable Activities is shown in the table below:

Cost Type	Total allocated £	Governance £	Charitable Activities £	Basis of apportionment
Staff costs	74,000	11,000	63,000	Staff time
Office rental and costs	29,000	4,000	25,000	Staff time
Computer costs	23,000	6,000	17,000	Software cost and usage
Depreciation	6,000	1,000	5,000	Staff time
Total	**132,000**	**22,000**	**110,000**	

The total support cost attributable to charitable activities is then apportioned pro rata to the number of grants awarded as shown in the table below:

Total Costs	£
Research	14,667
Education: PhD awards	80,667
CG Postgraduate scholarships	7,333
Innovation	7,333
Total allocated	**110,000**

6. Analysis of charitable expenditure

The charity undertakes its charitable activities through grant-making and awarded grants to a number of individuals and institutions in furtherance of its charitable activities.

	Grant funded Activity £000	Support costs £000	Total £000	Total 2005 £000
Research	110	15	125	115
Education:				
• PhD awards	508	81	589	659
• CG Scholarships Fund: Postgraduate scholarships	290	7	297	–
Innovation	132	7	139	–
Total	**1,040**	**110**	**1,150**	**774**

7 Analysis of grants

	Grants to Institutions £000	Grants to individuals £000
Research Posts	110	–
Education:		
• PhD awards	–	508
• Postgraduate scholarships	290	–
Innovation	132	–
Total	**532**	**508**

Recipients of Institutional grant(s):	Total £000
To fund higher education research and teaching post: University of Slough	58
To fund higher education research teaching post: Manchester Institute of Technology	52
Postgraduate Scholarship funds made to University of Taunton	290
To fund community social care project: Manchester Institute of Technology	132
Total	**532**

8 Analysis of governance costs

	2006 £000	2005 £000
Trustee expenses	1	1
Staff costs	11	11
Office rental and costs	4	4
Auditor's remuneration	10	10
Legal fees	9	4
Computer costs	6	6
Costs of meetings	8	6
Depreciation	1	1
	50	**43**

9 Fund transfers

The Trust engaged in correspondence with the Charity Commission early in the financial year with the explicit intention of applying the total return approach to the investment of its permanent endowment for the financial year. The investment power of total return was granted on 15 January 2006. Having considered their obligations under the duty of even handedness, the trustees made a transfer of £500,000 unapplied total return to unrestricted funds in respect of the charitable activities of the Trust, taking account of the return on investment for the whole of the year and the income needs of the charity.

10 Analysis of staff costs

	2006 £000	2005 £000
Salaries and wages	64	57
Social security costs	7	5
Other pension costs	3	2
Total	**74**	**64**

The average number of full time equivalent employees during the year was 2 (2005 2) with all employee time involved in providing either support to the governance of the charity or support services to charitable activities.

No employees had emoluments in excess of £60,000 (2005 nil).

11 Auditor's remuneration

The auditor's remuneration constituted an audit fee of £9,000 (2005 £8,500) and additional tax advisory work of £1,000 (2005 £1,500).

12 Tangible fixed assets

	Total £000
Furniture and equipment	
Cost	
At 1 October 2005	26
Additions	5
Disposals	(2)
At 30 September 2006	29
Depreciation	
At 1 October 2005	9
Charge for the year	6
Eliminated on disposals	(2)
At 30 September 2006	13
Net book value	
At 30 September 2006	16
At 30 September 2005	17

13 Fixed asset investments

Movement in fixed asset investments	2006 £000	2005 £000
Market value brought forward	26,629	27,428
Add: additions to investments at cost	5,150	4,013
Disposals at carrying value	(4,877)	(4,709)
Add net gain (loss) on revaluation	916	(103)
Market value as at 31st March	**27,818**	**26,629**

Investments at market value Comprised:	2006 £000	2005 £000
Equities	19,366	17,072
Fixed interest securities	8,102	8,934
Cash held within the investment portfolio	350	623
Total	**27,818**	**26,629**

All investment assets were held in the UK. The trustees consider that there were no material individual investment holdings in the year that require disclosure.

14 Application of the power of total return

The Charity Commission permitted the Trust to adopt the use of total return investment powers in relation to its permanent endowment investments by an order granted on 15 January 2006. The power permits the trustees to invest the portfolio to maximise total return and to apply an appropriate portion of the unapplied total return to income each year. Until the power is exercised to transfer a portion of unapplied total return to income (as disclosed in the fund transfers, note 9), the unapplied total return remains invested as part of the Permanent Endowment.

The investment fund and application of total return to permanent endowment funds:	**2006 £000**
Opening value of permanent endowment	20,223
Add	
Investment return: dividends and interest (to 15 January)	226
Less	
Original value of the gift	(1,542)
Unapplied total return upon award of the power	18,907
Add	
Investment return: dividends and interest (since 15 January)	552
Investment return: gains and (losses)	696
Less	
Investment management costs	(96)
Unapplied total return before transfer to income	20,059
Less	
Unapplied total return applied	(500)
Sub total: unapplied total return as at 30 September	19,559
Add	
Original value of the gift	1,542
Permanent endowment including unapplied total return as at 30 September, constituting the investment fund	**21,101**

15 Analysis of current assets

	2006 £000	**2005 £000**
Other debtors	17	8
Prepayments and accrued income	52	34
Total	**69**	**42**

16 Analysis of current liabilities and long term creditors

Creditors under one year	2006 £000	2005 £000
Innovation Grant	44	–
Grants payable PhD students	349	367
Total	**393**	**367**

Creditors over one year	2006 £000	2005 £000
Grants payable PhD students	166	184
Total	**166**	**184**

The trustees have accrued as a liability grants payable for PhD students based on funding for 3 years. Although each student grant is subject to an annual review, the Trust normally accepts the performance report from the host institution as the basis for continued funding. Since the progress of the student and the assessment of their progress are both outside of the control of the Trust, full accrual is appropriate.

A liability has also been recognised for the second year of the innovation grant following the decision to extend the grant with a provision made for a further year (note 17).

17 Provisions for liabilities and charges

Material provisions and movement in provisions during the year	Charitable commitments accrued £000
Commitments outstanding at the start of the year	–
New commitments charged to the SOFA in year	44
Grants cancelled or recovered	–
Grants paid during the year	–
Amount of commitments as at 30 September	44

b) Timing of commitments	Charitable commitments accrued £000
Commitments payable in under one year	–
Commitments payable over one year	44
Amount of commitments as at 30 September	44

The trustees only approve chargeable commitments where funds are already in place to meet the cost. The provision made in the year arose due to ongoing negotiations with the University of Taunton, concerning the amount of funding for year 3 of the innovation grant to reflect negotiations concerning the amount of staff time for the third year of the project. At the time of approving the accounts, the negotiations had not been concluded but the Board consider it highly likely that the project can continue and have provided for the grant.

18 Contingent liability

The Trust has been in communication with Higher College de Brugges and intends to make a CG Scholarship Grant to fund bursaries for students to study the genome with a reference to identifying susceptibility to dementia. The award of £200,000 is contingent on the Trust having the requisite scientific expertise to evaluate the grant request and to assess progress. Due to the delay in Professor Brown joining the Trust, it has not been possible to proceed. In the event that Professor Brown does join the Trust, the grant application will be reconsidered.

19 Analysis of charitable funds

Analysis of Fund movements	Balance b/fwd £000	Incoming resources £000	Resources expended £000	Transfers £000	Gains and losses £000	Fund c/fwd £000
a) Permanent endowment	20223	778	(96)	(500)	696	21101
b) Expendable endowment	5961	–	(28)	–	205	6138
c) Restricted fund	21	502	(297)	–	–	226
d) Unrestricted funds	830	34	(905)	500	15	474
Total	**27035**	**1314**	**(1326)**	**–**	**916**	**27939**

Name of Fund description, nature and purposes of the fund

a) The Permanent Endowment, the Sir Christopher Grant Bequest, was established by an initial gift from Sir Christopher Grant in 1964 following the death of his beloved wife, Rosanna Grant, from complications associated with Alzheimer's disease. The gift was made to the charity on condition that it is held as permanent endowment, the income from which is freely available to fund the activities of the charity.

b) The expendable endowment, the CG Scholarships Fund, was established by gift in 2005 in memory of the death of Sir Christopher. The trustees have the power to spend the capital; both the capital and income are restricted to paying for institutional bursaries for post graduate student awards where the student has a specific research aim related to furthering research into Alzheimer's disease and related conditions.

c) The CG Scholarships Fund (Restricted Income Fund) was established in 2005 to receive the restricted income from the above expendable endowment. The Fund is only available for institutional grants with the requirement that the recipient institution(s) provide bursaries for post graduate student awards where the student has a specific research aim related to furthering research into Alzheimer's disease and related conditions. The restricted fund is only available for institutional grants and funds all the educational and research related costs of each student together with a discretionary contribution to living expenses.

d) The unrestricted funds are available to be spent for any of the purposes of the charity.

EXAMPLES OF GRANT COMMITMENTS AND HOW TO ACCOUNT FOR THEM

In all examples the grant-making charity's balance sheet date is 31 December.

Example 1 – Unconditional grant communicated prior to year-end

1 September 2006: X submits an application for a grant.

30 November 2006: the grant-maker decides to approve the grant.

10 December 2006: the grant-maker writes to X saying that his grant will be paid.

31 January 2007: grant paid.

Accounting treatment

Provide for grant in current liabilities at 31 December 2006.

Example 2 – Unconditional grant with no communication of approval prior to payment

1 September 2006: X submits an application for a grant.

30 November 2006: the grant-maker decides to approve the grant but does not notify X.

31 January 2007: grant paid with accompanying approval letter.

Accounting treatment

Recognise grant in the 2007 accounts. Commitment had not been communicated to recipient at 31 December 2006. The grant-maker should make reference in the notes to the accounts to grants which had been authorised, but not communicated to recipients or paid at the balance sheet date, if these are material in total. (See paragraph 6.14 of the Guidance for disclosure requirements). The grant-maker may want to set up a designated fund in respect of such commitments.

Example 3 – Conditional commitment with condition not under the grant-maker's control

1 September 2006: X applies for grant.

30 November 2006: the grant-maker approves the grant subject to the recipient obtaining matching funding and informs X.

15 December 2007: X informs the grant-maker that matching funding has been obtained.

10 January 2008: grant paid.

Accounting treatment

Provide for grant in current liabilities at 31 December 2006. The fulfilment of the condition is not under the grant-maker's control. The commitment would still be in current liabilities at 31 December 2007.

Example 4 – Grant commitment subject to conditions not under the grant-maker's control and a final review process

1 September 2006: X applies for grant for a capital project.

30 November 2006: grant approved by the grant-maker subject to the recipient first obtaining planning permission and matched funding and then producing detailed plans which have to be reviewed by the grant-making charity to ensure that it is happy to fund the project in its finally agreed form.

15 December 2006: the conditional approval is communicated to the recipient.

31 October 2007: X reports to the grant-maker that planning permission and matched funding have both been obtained and submits the final detailed project plans for review.

5 January 2008: the grant-maker approves the grant for payment having reviewed the final plans.

10 January 2008: the grant-maker tells X that the grant will be paid.

25 January 2008: grant paid

Accounting treatment

31 December 2006: there is no liability to recognise. Although the conditions relating to planning permission and matched funding are outside the grant-maker's control, the final review process is under the grant-maker's control. The grant-maker should make reference in the notes to the accounts to grants which have been authorised, but are subject to conditions under the grant-maker's control at the balance sheet date, if these are material in total. (See paragraph 6.14 of the Guidance for disclosure requirements). The grant-maker may want to set up a designated fund in respect of such commitments.

It is assumed that the grant-maker's final review process has substance and leaves real discretion with the grant-maker until this process has been completed. The requirements for matched funding and planning permission make it possible that the final project plans are significantly different to the plans put forward initially and the grant-maker therefore wishes to reserve the discretion over whether it approves the project in its final form. Had the grant-maker simply stipulated that the final project had to be exactly as originally planned then it would lose any discretion and the fulfilment of the conditions would not be under its control and the grant liability would have to be recognised at 31 December 2006.

31 December 2007: there is still no liability to recognise. Although the external conditions have been met, the grant-maker retains control over the outcome of the review process until it has communicated the satisfactory outcome to the recipient. X is not entitled to assume that the grant-maker is satisfied with the detailed project plans until X hears the outcome of the review process.

The grant-maker should make reference in the notes to the accounts to grants which have been authorised, but are subject to conditions under the grant-maker's control at the balance sheet date, if these are material in total. (See paragraph 6.14 of the Guidance for disclosure requirements). The grant-maker may want to set up a designated fund in respect of such commitments.

The grant is recognised in 2008.

Example 5 – Grant commitment where condition is not under the grant-maker's control and is not met

1 September 2006: X applies for grant for a capital project.

30 November 2006: grant approved by the grant-maker subject to obtaining the balance of the funding required for the project by 30 November 2007.

15 December 2006 : the conditional approval is communicated to the recipient.

31 October 2007: X informs the grant-maker that whilst some additional funding has been obtained it is not enough to fund the project as originally envisaged and that it is clear that the original funding target will not be met. X asks if the grant commitment can instead be used to fund a smaller version of the project.

15 December 2007: the grant-maker decides to approve the application to fund the smaller version of the project subject to the other funders also agreeing to this.

5 January 2008: this decision is communicated to X.

31 January 2008: X informs the grant-maker that the other funders have agreed and the grant is paid.

Accounting treatment

31 December 2006: the grant commitment should be provided for under current liabilities. The fulfilment of the conditions is not under the grant-maker's control.

31 December 2007: the original commitment should be reversed as the conditions have not been met. The request to use the commitment on a smaller version of the project is a new grant application. As the decision to agree to X's new grant application is not communicated until after the balance sheet date there is no liability to recognise. The grant-maker should make reference in the notes to the accounts to grants which had been authorised, but not communicated to recipients or paid at the balance sheet date, if these are material in total. (See paragraph 6.14 of the Guidance for disclosure requirements). The grant-maker may want to set up a designated fund in respect of such commitments.

The grant for the smaller version of the project would be recognised in 2008.

Example 6 – Grant paid in instalments subject to performance conditions not under the grant-maker's control

1 September 2006: X applies for funding for a series of academic research projects.

31 October 2006: the grant-maker approves the funding, but on the condition that grants are only paid as projects are completed and once they have been peer-reviewed by a panel of academics.

30 November 2006: the decision to fund on this basis is communicated to X.

2007/2008: the research projects are completed and all pass their peer reviews and the grants are paid.

Accounting treatment

31 December 2006: the grant commitment should be provided in full, analysed between "current liabilities" and "amounts falling due after more than one year" if it is certain that some of the payments cannot be made until after 31 December 2007. The conditions are not under the control of the grant-maker.

If the research was being conducted for the benefit of the grant-maker or its beneficiaries, the grants would be accounted for as performance related grants and they would only be recognised as and when each project had been completed and successfully peer-reviewed. However, that is not the case here and so the correct treatment is to recognise the full liability once the initial commitment has been communicated to X.

31 December 2007: the remaining grant commitment should be included in "current liabilities". The conditions are not under the control of the grant-maker.

Example 7 – Multi-year grant with an annual reporting requirement

1 September 2006: X applies for grant funding for a youth club manager.

31 October 2006: the grant-maker approves grant funding for three years, each year's grant to be paid on 15 January. X is required to submit a report each year setting out some brief comments on what the project is achieving.

2007, 2008 and 2009: the grants are paid and the youth club manager is paid. The reports are made, but not normally until the end of January each year. These are read by the grants administrator and filed.

Accounting treatment:

31 December 2006: provide for the full grant commitment analysed between "current liabilities" and "amounts falling due after more than one year". Similarly in subsequent financial years, the full remaining grant commitment would be analysed between "current liabilities" and "amounts falling due after more than one year" as appropriate.

The annual reporting process does not amount to a review and is not linked to the renewal of the grant and is not therefore a condition which has to be fulfilled before the next year's grant is paid.

Example 8 – Multi-year grant commitment subject to annual review

1 September 2006: X applies for grant funding for a youth club manager.

31 October 2006: the grant-maker agrees to provide funding for three years, but on the condition that a progress report is provided by 30 November each year setting out what the project is achieving and that the grant-giver is satisfied with performance before the next year's grant is authorised. Each grant to be paid on 15 January.

30 November 2006: the grant-maker informs X that the grant has been approved for three years subject to the above terms.

15 January 2007: grant paid for 2007.

30 November 2007: satisfactory progress report received from X.

15 December 2007: grant-maker informs X that the 2008 payment will be made.

15 January 2008: grant paid for 2008.

30 November 2008: report received highlighting a number of problems at the club including concerns about the behaviour and performance of the manager.

5 January 2009: grant-maker informs X that the 2009 grant will not be paid.

Accounting treatment

31 December 2006: provide only for the payment due in January 2007. The payment of subsequent years' grants is subject to a condition which is under the grant-maker's control. The grant-maker should make reference in the notes to the accounts to grants which have been authorised, but are subject to conditions under the grant-maker's control at the balance sheet date, if these are material in total. (See paragraph 6.14 of the Guidance for disclosure requirements). The grant-maker may want to set up a designated fund in respect of such commitments.

31 December 2007: provide only for the payment due in January 2008. The review process has been satisfactorily completed and X has been told that payment of the next year's grant will be made. The grant-maker should include the unprovided element of the grant (i.e. the potential payment for 2009) in the note to the accounts which deals with unprovided grant commitments, if these are material in total. The grant-maker may want to set up a designated fund in respect of such commitments.

31 December 2008: the review process results in the non-payment of the 2009 grant and no provision is made at 31 December 2008. Any designation of funds should be cancelled with an explanatory note in the accounts, where appropriate (Para. 75).

Example 9 – Five-year grant commitment subject to matching funding from a third party

The full five-year commitment would be provided for once it had been communicated to the recipient as the condition is not under the grant-maker's control. If material, the value of the commitment may be discounted (Para. 323).

Example 10 – Five-year bursary commitment to pay 50% of the fees of a pupil at an independent school subject to the pupil's satisfactory academic performance

The question here is whether the condition is under the control of the grant-making charity or not. Clearly the pupil's academic performance is not under the grant-maker's control. The review of the academic performance may be undertaken by the school. In the absence of an effective annual review process by the grant-maker, the full commitment would be accrued once it had been communicated to the recipient as the condition would not be under the grant-maker's control. If material, the commitment could be discounted (Para. 323).

However, provided that the grant-making charity has the discretion to terminate the grant if it disagrees with the school's assessment then it is fair to say that the condition is ultimately under the grant-maker's control. Each year's grant would only therefore be recognised as and when the reviews were satisfactorily completed by the grant-maker. These reviews would need to be properly documented and the grant-maker would need to satisfy their auditors concerning the capability of the charity to undertake the academic assessment implicit within a review and that the review is an effective process (Para. 159 (a) (ii)).

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